



Revenue Cycle Test Bank

Accountancy (University of the Philippines)

Chapter 4—The Revenue Cycle

TRUE/FALSE

1. The packing slip is also known as the shipping notice.
ANS: F PTS: 1
2. The bill of lading is a legal contract between the buyer and the seller.
ANS: F PTS: 1
3. Another name for the stock release form is the picking ticket.
ANS: T PTS: 1
4. Warehouse stock records are the formal accounting records for inventory.
ANS: F PTS: 1
5. The purpose of the invoice is to bill the customer.
ANS: T PTS: 1
6. In most large organizations, the journal voucher file has replaced the formal general journal.
ANS: T PTS: 1
7. The cash receipts journal is a special journal.
ANS: T PTS: 1
8. In the revenue cycle, the internal control “limit access” applies to physical assets only.
ANS: F PTS: 1
9. In real-time processing systems, routine credit authorizations are automated.
ANS: T PTS: 1
10. In a computerized accounting system, segregation of functions refers to inventory control, accounts receivable, billing, and general ledger tasks.
ANS: F PTS: 1
11. A written customer purchase order is required to trigger the sales order system.

ANS: F PTS: 1

12. Inventory control has physical custody of inventory.

ANS: F PTS: 1

13. The principal source document in the sales order system is the sales order.

ANS: T PTS: 1

14. Sales orders should be prenumbered documents.

ANS: T PTS: 1

15. Integrated accounting systems automatically transfer data between modules.

ANS: T PTS: 1

16. If a customer submits a written purchase order, there is no need to prepare a sales order.

ANS: F PTS: 1

17. Sales return involves receiving, sales, credit, and billing departments, but not accounts receivable.

ANS: F PTS: 1

18. A remittance advice is a form of turn-around document.

ANS: T PTS: 1

19. A bill of lading is a request for payment for shipping charges.

ANS: F PTS: 1

20. In point of sale systems, authorization takes the form of validation of credit card charges.

ANS: T PTS: 1

21. The warehouse is responsible for updating the inventory subsidiary ledger.

ANS: F PTS: 1

22. In a manual system, the billing department is responsible for recording the sale in the sales journal.

ANS: T PTS: 1

23. The stock release document is prepared by the shipping department to provide evidence that the goods have been released to the customer.

ANS: F PTS: 1

24. The accounts receivable clerk is responsible for updating the AR Control accounts to reflect each customer sale.

ANS: F PTS: 1

25. When customer payments are received, the mailroom clerk sends the checks to the cash receipts clerk and the remittance advices to the AR clerk.

ANS: T PTS: 1

26. Physical controls are imbedded in computer systems to control access to data.

ANS: F PTS: 1

27. Process controls are controls over the logic of the application.

ANS: T PTS: 1

28. In a basic technology revenue cycle system, a robust password control policy should be implemented.

ANS: T PTS: 1

29. In an integrated cash receipts system, the cash receipts clerk reconciles the checks and the remittance advices and prepares deposit slips.

ANS: T PTS: 1

30. Multilevel security employs programmed techniques that permit simultaneous access to a central system by many users with different access privileges but allows them to obtaining information for which they lack authorization.

ANS: F PTS: 1

31. Application integrity is achieved through the systems development and program change processes.

ANS: T PTS: 1

MULTIPLE CHOICE

1. The revenue cycle consists of
 - a. one subsystem—order entry
 - b. two subsystems—sales order processing and cash receipts
 - c. two subsystems—order entry and inventory control
 - d. three subsystems—sales order processing, credit authorization, and cash receipts

ANS: B PTS: 1

2. The reconciliation that occurs in the shipping department is intended to ensure that
 - a. credit has been approved
 - b. the customer is billed for the exact quantity shipped
 - c. the goods shipped match the goods ordered
 - d. inventory records are reduced for the goods shipped

ANS: C PTS: 1

3. The adjustment to accounting records to reflect the decrease in inventory due to a sale occurs in the
 - a. warehouse
 - b. shipping department
 - c. billing department
 - d. inventory control department

ANS: D PTS: 1

4. Which document triggers the revenue cycle?
 - a. the sales order
 - b. the customer purchase order
 - c. the sales invoice
 - d. the journal voucher

ANS: B PTS: 1

5. Copies of the sales order can be used for all of the following except
 - a. purchase order
 - b. credit authorization
 - c. shipping notice
 - d. packing slip

ANS: A PTS: 1

6. The purpose of the sales invoice is to
 - a. record reduction of inventory
 - b. transfer goods from seller to shipper
 - c. bill the customer
 - d. select items from inventory for shipment

ANS: C PTS: 1

7. The customer open order file is used to
 - a. respond to customer queries
 - b. fill the customer order

- c. ship the customer order
- d. authorize customer credit

ANS: A PTS: 1

8. The stock release copy of the sales order is not used to
- a. locate and pick the items from the warehouse shelves
 - b. record any out-of-stock items
 - c. authorize the warehouse clerk to release custody of the inventory to shipping
 - d. record the reduction of inventory

ANS: D PTS: 1

9. The shipping notice
- a. is mailed to the customer
 - b. is a formal contract between the seller and the shipping company
 - c. is always prepared by the shipping clerk
 - d. informs the billing department of the quantities shipped

ANS: D PTS: 1

10. The billing department is not responsible for
- a. updating the inventory subsidiary records
 - b. recording the sale in the sales journal
 - c. notifying accounts receivable of the sale
 - d. sending the invoice to the customer

ANS: A PTS: 1

11. Customers should be billed for back-orders when
- a. the customer purchase order is received
 - b. the backordered goods are shipped
 - c. the original goods are shipped
 - d. customers are not billed for backorders because a backorder is a lost sale

ANS: B PTS: 1

12. Usually specific authorization is required for all of the following except
- a. sales on account which exceed the credit limit
 - b. sales of goods at the list price
 - c. a cash refund for goods returned without a receipt
 - d. write off of an uncollectible account receivable

ANS: B PTS: 1

13. Which of following functions should be segregated?
- a. opening the mail and making the journal entry to record cash receipts
 - b. authorizing credit and determining reorder quantities
 - c. maintaining the subsidiary ledgers and handling customer queries
 - d. providing information on inventory levels and reconciling the bank statement

ANS: A PTS: 1

14. Which situation indicates a weak internal control structure?
- a. the mailroom clerk authorizes credit memos
 - b. the record keeping clerk maintains both accounts receivable and accounts payable subsidiary ledgers
 - c. the warehouse clerk obtains a signature before releasing goods for shipment
 - d. the accounts receivable clerk prepares customer statements every month

ANS: A PTS: 1

15. The most effective internal control procedure to prevent or detect the creation of fictitious credit memoranda for sales returns is to
- a. supervise the accounts receivable department
 - b. limit access to credit memoranda
 - c. prenumber and sequence check all credit memoranda
 - d. require management approval for all credit memoranda

ANS: D PTS: 1

16. The accounts receivable clerk destroys all invoices for sales made to members of her family and does not record the sale in the accounts receivable subsidiary ledger. Which procedure will not detect this fraud?
- a. prenumber and sequence check all invoices
 - b. reconcile the accounts receivable control to the accounts receivable subsidiary ledger
 - c. prepare monthly customer statements
 - d. reconcile total sales on account to the debits in the accounts receivable subsidiary ledger

ANS: C PTS: 1

17. Which department is least likely to be involved in the revenue cycle?
- a. credit
 - b. accounts payable
 - c. billing
 - d. shipping

ANS: B PTS: 1

18. Which document is included with a shipment sent to a customer?
- a. sales invoice
 - b. stock release form
 - c. packing slip
 - d. shipping notice

ANS: C PTS: 1

19. Good internal controls in the revenue cycle should ensure all of the following except
- a. all sales are profitable
 - b. all sales are recorded
 - c. credit is authorized
 - d. inventory to be shipped is not stolen

ANS: A PTS: 1

20. Which control does not help to ensure that accurate records are kept of customer accounts and inventory?
- a. reconcile accounts receivable control to accounts receivable subsidiary
 - b. authorize credit
 - c. segregate custody of inventory from record keeping
 - d. segregate record keeping duties of general ledger from accounts receivable

ANS: B PTS: 1

21. Internal controls for handling sales returns and allowances do not include
- a. computing bad debt expense using the percentage of credit sales
 - b. verifying that the goods have been returned
 - c. authorizing the credit memo by management
 - d. using the original sales invoice to prepare the sales returns slip

ANS: A PTS: 1

22. The printer ran out of preprinted sales invoice forms and several sales invoices were not printed. The best internal control to detect this error is
- a. a batch total of sales invoices to be prepared compared to the actual number of sales invoices prepared
 - b. sequentially numbered sales invoices
 - c. visual verification that all sales invoices were prepared
 - d. none of the above will detect this error

ANS: A PTS: 1

23. Which department prepares the bill of lading?
- a. sales
 - b. warehouse
 - c. shipping
 - d. credit

ANS: C PTS: 1

24. A remittance advice is
- a. used to increase (debit) an account receivable by the cash received
 - b. is a turn-around document
 - c. is retained by the customer to show proof of payment
 - d. none of the above

ANS: B PTS: 1

25. A weekly reconciliation of cash receipts would include comparing
- a. the cash prelist with bank deposit slips
 - b. the cash prelist with remittance advices
 - c. bank deposit slips with remittance advices
 - d. journal vouchers from accounts receivable and general ledger

ANS: A PTS: 1

26. At which point is supervision most critical in the cash receipts system?
- a. accounts receivable
 - b. general ledger
 - c. mail room
 - d. cash receipts

ANS: C PTS: 1

27. EDI trading partner agreements specify all of the following except
- a. selling price
 - b. quantities to be sold
 - c. payment terms
 - d. person to authorize transactions

ANS: D PTS: 1

28. A cash prelist is
- a. a document that records sales returns and allowances
 - b. a document returned by customers with their payments
 - c. the source of information used to prepare monthly statements
 - d. none of the above

ANS: D PTS: 1

29. An advantage of real-time processing of sales is
- a. the cash cycle is lengthened
 - b. current inventory information is available
 - c. hard copy documents provide a permanent record of the transaction
 - d. data entry errors are corrected at the end of each batch

ANS: B PTS: 1

30. Commercial accounting systems have fully integrated modules. The word “integrated” means that
- a. segregation of duties is not possible
 - b. transfer of information among modules occurs automatically
 - c. batch processing is not an option
 - d. separate entries are made in the general ledger accounts and the subsidiary ledgers

ANS: B PTS: 1

31. The data processing method that can shorten the cash cycle is
- a. batch, sequential file processing
 - b. batch, direct access file processing
 - c. real-time file processing
 - d. none of the above

ANS: C PTS: 1

32. Which of the following is not a risk exposure in a PC accounting system?
- a. reliance on paper documentation is increased
 - b. functions that are segregated in a manual environment may be combined in a microcomputer accounting system
 - c. backup procedures require human intervention
 - d. data are easily accessible

ANS: A PTS: 1

33. Which journal is not used in the revenue cycle?
- a. cash receipts journal
 - b. sales journal
 - c. purchases journal
 - d. general journal

ANS: C PTS: 1

34. Periodically, the general ledger department receives all of the following except
- a. total increases to accounts receivable
 - b. total of all sales backorders
 - c. total of all sales
 - d. total decreases in inventory

ANS: B PTS: 1

35. The credit department
- a. prepares credit memos when goods are returned
 - b. approves credits to accounts receivable when payments are received
 - c. authorizes the granting of credit to customers
 - d. none of the above

ANS: C PTS: 1

36. Adjustments to accounts receivable for payments received from customers is based upon
- a. the customer's check
 - b. the cash prelist
 - c. the remittance advice that accompanies payment
 - d. a memo prepared in the mailroom

ANS: C PTS: 1

37. The revenue cycle utilizes all of the following files except
- a. credit memo file
 - b. sales history file
 - c. shipping report file
 - d. cost data reference file

ANS: D PTS: 1

38. All of the following are advantages of real-time processing of sales except
- a. The cash cycle is shortened
 - b. Paper work is reduced
 - c. Incorrect data entry is difficult to detect
 - d. Up-to-date information can provide a competitive advantage in the marketplace

ANS: C PTS: 1

39. Which document is NOT prepared by the sales department?
- a. packing slip
 - b. shipping notice
 - c. bill of lading
 - d. stock release

ANS: C PTS: 1

40. Which type of control is considered a compensating control?
- a. segregation of duties
 - b. access control
 - c. supervision
 - d. accounting records

ANS: C PTS: 1

41. Which of the following is NOT a common method for achieving multilevel security?
- a. Access control list
 - b. Application integrity
 - c. Role based access control
 - d. All of the above

ANS: B PTS: 1

42. In an integrated cash receipts system, which of the following is not a task of the mail room clerk?
- a. Prepare deposit slips
 - b. Open envelopes
 - c. Prepare remittance list
 - d. Make bank deposit

ANS: D PTS: 1

SHORT ANSWER

1. Distinguish between a packing slip, shipping notice, and a bill of lading.

ANS:

The packing slip travels with the goods to the customer, and it describes the contents on the order. Upon filling the order, the shipping department sends the shipping notice to the billing department to notify them that the order has been filled and shipped. The shipping notice contains additional information that the packing slip may not contain, such as shipment date, carrier and freight charges. The bill of lading is a formal contract between the seller and the transportation carrier; it shows legal ownership and responsibility for assets in transit.

PTS: 1

2. State two specific functions or jobs that should be segregated in the sales processing system.

ANS:

sales order processing and credit approval; inventory control (record keeping) from warehouse (custody); and general ledger from accounts receivable subsidiary ledger

PTS: 1

3. State two specific functions or jobs that should be segregated in the cash receipts system.

ANS:

cash receipts (custody) from accounts receivable (record keeping); and general ledger from accounts receivable subsidiary ledger; mail room (receiving cash) and accounts receivable subsidiary ledger

PTS: 1

4. List two points in the sales processing system when authorization is required.

ANS:

credit check, sales returns policy, preparation of cash prelist PTS: 1

5. For the revenue cycle, state two specific independent verifications that should be performed.

ANS:

Shipping verifies that the goods sent from the warehouse are correct in type and quantity.
Billing reconciles the shipping notice with the sales order to ensure that customers are billed only for the quantities shipped.
General ledger reconciles journal vouchers submitted by the billing department (sales journal), inventory control (inventory subsidiary ledger), and cash receipts (cash receipts journal).
Treasurer determines that all cash received got to the bank. PTS: 1

6. What task can the accounts receivable department engage in to verify that all checks sent by customers have been appropriately deposited and recorded?

ANS:

The company should periodically, perhaps monthly, send an account summary to each customer listing invoices and amounts paid by check number and date. This form allows the customer to verify the accuracy of the records. If any payments are not recorded, they will notify the company of the discrepancy. These reports should not be handled by the accounts receivable clerk or the cashier.

PTS: 1

7. What specific internal control procedure would prevent the sale of goods on account to a fictitious customer?

ANS:

credit check PTS: 1

8. The clerk who opens the mail routinely steals remittances and checks. Describe a specific internal control procedure that would prevent or detect this fraud.

ANS:

supervision (two people) when opening the mail; customer complaints when monthly statements mailed

PTS: 1

9. A customer payment of \$247 was correctly posted in the general ledger but was recorded as \$274 in the customer's account receivable. Describe a specific internal control procedure that would detect this error.

ANS:

Reconcile the accounts receivable control account to the accounts receivable subsidiary ledger; compare control totals of cash received with total credits to A/R subsidiary ledger.

PTS: 1

10. Goods are shipped to a customer, but the shipping department does not notify billing and the customer never receives an invoice. Describe a specific internal control procedure that would detect this error.

ANS:

Billing department matches the stock release copy of the sales order (from shipping) to the invoice, ledger, and file copies of the sales order (sent directly to billing), and then mails the invoice to the customer. After a certain amount of time has passed, the billing department should investigate any unmatched invoice, ledger, and file copies of the sales order.

PTS: 1

11. A clerk embezzles customer payments on account and covers up the theft by making an adjustment to the accounts receivable ledger. Describe a specific internal control procedure that would prevent this fraud.

ANS:

segregation of duties; do not let one person have custody of payments and the ability to make adjustments to the records; all adjustments to accounts receivable records must be authorized

PTS: 1

12. A credit sale is made to a customer, even though the customer's account is four months overdue. Describe a specific internal control procedure that would prevent this from happening.

ANS:

Perform a credit check and require management approval for all sales to accounts that are overdue. PTS: 1

13. What specific internal control procedure would prevent a customer from being billed for all 50 items ordered although only 40 items were shipped?

ANS:

Billing should reconcile the shipping report with the sales order. PTS: 1

14. What specific internal control procedure would prevent the shipping clerk from taking goods from the storeroom and sending them to someone who had not placed an order?

ANS:

Shipping clerk should not have access to the storeroom. PTS: 1

15. What specific internal control procedure would prevent an accounts receivable clerk from issuing a fictitious credit memo to a customer (who is also a relative) for goods that were “supposedly” returned from previous sales?

ANS:

Credit memo should be authorized after verifying the return of goods based on evidence from the person who received the goods.

PTS: 1

16. What specific internal control procedure would prevent an increase in sales returns since salesmen were placed on commission?

ANS:

Customer credit should be verified by the credit department; reduce commissions for sales returns. PTS: 1

17. What specific internal control procedure would detect the misplacement of a sales invoice after preparation and not mailed to the customer? The invoice was never found.

ANS:

All documents should be prenumbered. PTS: 1

18. What function does the receiving department serve in the revenue cycle?

ANS:

The receiving department counts and inspects items which are returned by customers. The receiving department prepares a return slip of which a copy goes to the warehouse for restocking, and a copy goes to the sales order department so that a credit memo can be issued to the customer.

PTS: 1

19. What are the three rules that ensure that no single employee or department processes a transaction in its entirety.

ANS:

The three rules that ensure segregation of functions are:

1. Transaction authorization should be separate from transaction processing.
2. Asset custody should be separate from asset record keeping.
3. The organization structure should be such that the perpetration of a fraud requires collusion between 2 or more individuals.

PTS: 1

20. What is automation and why is it used?

ANS:

Automation involves using technology to improve the efficiency and effectiveness of a task. Automation of the revenue cycle is typically used to reduce overhead costs, make better credit granting decisions, and better collect outstanding accounts receivable.

PTS: 1

21. What is the objective of re-engineering?

ANS:

The objective of re-engineering is to greatly reduce costs by identifying and eliminating non value- added tasks and also by streamlining necessary existing processes.

PTS: 1

22. What are the key segregation of duties related to computer programs that process accounting transactions?

ANS:

The tasks of design, maintenance, and operation of computer programs need to be segregated. The programmers who write the original computer programs should not also be responsible for making program changes. Both of these functions must also be separate from the daily task of operating the system.

PTS: 1

23. How is EDI more than technology? What unique control problems may it pose?

ANS:

EDI represents a unique business arrangement between the buyer and seller in which they agree, in advance, to the terms of their relationship on such items as selling price, quantities, delivery times, payment terms and methods of handling disputes. The terms of agreement are binding. One problem is ensuring that only valid transactions are processed. Another risk is that a non-trading partner will masquerade as a trading partner and access the firm's processing systems.

PTS: 1

24. What makes point-of-sale systems different from revenue cycles of manufacturing firms?

ANS:

In point-of-sale systems, the customer literally has possession of the items purchased, thus the inventory is in hand. Typically, for manufacturing firms, the order is placed and the good is shipped to the customer at some later time period. Thus, updating inventory at the time of sale is necessary in point-of-sale systems since the inventory is changing hands, while it is not necessary in manufacturing firms until the goods are actually shipped to the customer.

Also, POS systems are used extensively in grocery stores, department stores, and other types of retail organizations. Generally, only cash, checks, and bank credit card sales are valid. Unlike manufacturing firms, the organization maintains no customer accounts receivable. Unlike some manufacturing firms, inventory is kept on the store's shelves, not in a separate warehouse. The customers personally pick the items they wish to buy and carry them to the checkout location, where the transaction begins. Shipping, packing, bills of lading, etc. are not relevant to POS systems. PTS: 1

25. Give three examples of Access Control in a Point-of-Sale (POS) system.

ANS:

- Lock on the cash drawer
- Internal cash register tape that can be accessed only by the manager
- Physical security over the inventory, for example: steel cables to secure expensive leather coats to the clothing rack; locked showcases to display jewelry and costly electronic equipment; magnetic tags attached to merchandise that will sound an alarm when removed from the store.

Note to Instructor: Some physical security devices could also be classified as supervision. PTS: 1

26. Describe the key tasks in the sales order process.

ANS:

Sales order procedures include the tasks involved in receiving and processing a customer order, filling the order and shipping products to the customer, billing the customer at the proper time, and correctly accounting for the transaction.

PTS: 1

27. What is the purpose(s) of the stock release document?

ANS:

The stock release document (also called the picking ticket) is sent to the warehouse to identify the items of inventory that have been sold and must be located and picked from the warehouse shelves. It also provides formal authorization for warehouse personnel to release the specified items.

PTS: 1

28. What is the role of the shipping notice?

ANS:

The shipping notice triggers the billing process. When the goods are shipped the shipping notice is forwarded to the billing function as evidence that the customer's order was filled and shipped. This document conveys pertinent new facts such as the date of shipment, the items and quantities actually shipped, the name of the carrier, and freight charges.

PTS: 1

29. What is a bill of lading?

ANS:

The bill of lading is a formal contract between the seller and the shipping company (carrier) to transport the goods to the customer. This document establishes legal ownership and responsibility for assets in transit.

PTS: 1

30. What is the purpose of the credit memo?

ANS:

This document is the authorization for the customer to receive credit for the merchandise returned. A credit memo may be similar in appearance to a sales order. Some systems may actually use a copy of the sales order marked credit memo.

PTS: 1

31. How is application integrity achieved?

ANS:

Application integrity is achieved through the systems development and program change processes. PTS: 1

32. What is multilevel security?

ANS:

Multilevel security employs programmed techniques that permit simultaneous access to a central system by many users with different access privileges but prevents them from obtaining information for which they lack authorization.

PTS: 1

33. What does EDI technology do?

ANS:

EDI technology was devised to expedite routine transactions between manufacturers and wholesalers,

and between wholesalers and retailers. PTS: 1

ESSAY

1. When Clipper Mail Order Co. receives telephone and fax orders, the billing department prepares an invoice. The invoice is mailed immediately. A copy of the invoice serves as a shipping notice. The shipping department removes inventory from the warehouse and prepares the shipment. When the order is complete, the goods are shipped. The clerk checks the customer's credit before recording the sale in the general journal and the account receivable subsidiary ledger.

The receptionist opens the mail and lists all payments. The receptionist also handles all customer complaints and prepares sales return forms for defective merchandise. The cashier records all cash receipts in the general journal and makes the appropriate entry in the accounts receivable subsidiary ledger. The cashier prepares the daily bank deposit.

Describe at least four internal control weaknesses at Clipper Mail Order Co. ANS:

no sales order is prepared;
credit should be checked before shipping the items; invoices
are mailed before the goods are shipped; shipping has
access to the warehouse;
record keeping duties are not segregated (general ledger from subsidiary ledger); only
one person opens the mail;
sales return forms are not authorized by management; custody and
record keeping duties are not separated;
the cashier has custody of cash, makes journal entries, and maintains A/R ledger;
Cashier has custody of cash and handles customer complaints (e.g., about unrecorded payments). PTS: 1

2. How may an employee embezzle funds by issuing an unauthorized sales credit memo if the appropriate segregation of functions and authorization controls were not in place?

ANS:

An employee who has access to incoming payments, either cash or check, as well as the authorization to issue credit memos may pocket the cash or check of a payment for goods received. This employee could then issue a credit memo to this person's account so that the customer does not show a balance due.

PTS: 1

3. For each of the following documents, describe its purpose, the functional area preparing it, and the key data included: sales order, bill of lading, credit memo.

ANS:

A sales order is used to collect information needed to initiate the sales process. It can be a copy of the customer's purchase order prepared by the customer or a document prepared by a member of the sales staff in response to mail, phone or personal contact with the customer. It contains information about the customer, the type and quantity of merchandise being requested, price information, shipping information, etc.

The bill of lading is prepared by the shipping clerk. It is a formal contract between the seller and the carrier who will transport the goods to the customer. It contains information about the carrier, the customer, descriptions of the package(s) being shipped, declared value of the goods, and information on freight charges, including how much and who will pay.

A credit memo is a document authorizing issuance of credit to a customer for returned goods. It is prepared in the sales department after receipt of a return slip from receiving. It shows the customer's name, reason for the return, a list of items and prices, and the total amount of credit. Many credit memos require additional authorization.

PTS: 1

4. What features of a reengineered cash receipts system contribute to improved control and reduced costs? What complicates the process?

ANS:

A reengineered cash receipts system can include automated mail processing that opens envelopes and separates checks and remittance advices in a manner that limits access of the mail room clerk to the checks. Software can be used to read the amount of payment and compare to the amount due, verify that the check has been signed, etc. "Good" transactions continue through processing, exceptions are handled separately. Checks are sent to the cash receipts department for deposit, listings of transactions are sent to accounts receivable, cash receipts, and general ledger departments.

This process is complicated when the organization receives many partial payments, single payments covering multiple invoices, or encounters many clerical errors on the part of customers.

PTS: 1

5. What role does each of the following departments play in the sales order processing subsystem: sales, credit, and shipping? Be complete.

ANS:

The **sales department** receives the order information from the customer, either by mail, phone, or in person. Information is captured on a sales order form which includes customer name, account number, name, number and description of items ordered, quantities and unit prices plus taxes, shipping info, discounts, freight terms. This form is usually prepared in multiple copies that are used for credit approval, packing, stock release, shipping, and billing.

The **credit department** provides transaction authorization by approving the customer for a credit sale and returns and allowances.

The **shipping department** receives information from the sales department in the form of packing slip and shipping notice. When the goods arrive from the warehouse, the documents are reconciled with the stock release papers. The goods are packed and labeled. The packing slip is included. The shipping notice is sent to billing. A bill of lading is prepared to accompany the shipment.

PTS: 1

6. With regard to segregation of duties, rule one is that transaction authorization and transaction processing should be separated. What does this require in the revenue cycle?

ANS:

Within the revenue cycle, the credit department is separate from the rest of the process. Hence, the authorization of the transaction (granting of credit) is independent. If other people, e.g., sales staff, were able to authorize credit sales, there would be the temptation to approve sales to any customer, even those known to not be credit worthy.

PTS: 1

7. With regard to segregation of duties, rule two is that asset custody and record keeping should be separated. What does this require in the revenue cycle?

ANS:

In the revenue cycle, the warehouse has custody of physical assets while accounting (especially general ledger and inventory control) maintains the records. Also, in the cash receipts subsystem, cash receipts has custody of the asset (cash) while general ledger and accounts receivable keep the records.

PTS: 1

8. What role does each of the following departments play in the cash receipts subsystem: mail room, cash receipts, accounts receivable, and general ledger? Be complete.

ANS:

The **mail room** receives the customer's payment—usually a check accompanied by a document called a remittance advice (which may be a copy of the invoice sent to the customer). Mail clerks separate the two, prepare a cash prelist or remittance list which lists all the payments received and sends the checks to the cashier and remittance advices to accounts receivable.

In **cash receipts** someone (e.g., cashier) restrictively endorses the checks and records the payments in the cash receipts journal. A deposit slip is prepared which accompanies the checks to the bank.

The **accounts receivable** department posts from the remittance advices to the customer accounts in the AR subsidiary ledger.

The **general ledger** department records cash receipts to the cash and AR control accounts based on the list from the mailroom and the summary report of posting from A/R.

PTS: 1

9. For each of the following documents, describe its purpose, the functional area preparing it, and the key data included: remittance advice, remittance list, deposit slip.

ANS:

A **remittance advice** is sent by the customer to accompany payment. However, it is often part of or a copy of the invoice previously sent by the billing department after the goods were shipped.

A **remittance list** is often called a cash prelist and is prepared by the mail room clerk to record all cash received. It accompanies the checks to the cashier.

A **deposit slip** is prepared by the cashier to accompany the checks to the bank. This is usually a preprinted bank form.

PTS: 1

10. How is independent verification carried out in a manual revenue system?

ANS:

Independent verification occurs in several departments as part of the sales order processing system. The **shipping department** verifies that the goods released by the warehouse for shipment, as shown on the stock release document, match the packing slip. **Billing** compares the shipping notice with the invoice to be sure customers are billed only for goods shipped. And **general ledger** reconciles the journal vouchers prepared by billing, inventory control, cash receipts, and accounts receivable. This reconciliation focuses on a match between what was ordered, what was removed from the stockroom, what was shipped, what was billed, cash received, and credit to the customer account.

PTS: 1

11. Describe two common methods for achieving multilevel security.

ANS:

Two common methods for achieving multilevel security are the access control list (ACL) and role based access control (RBAC). The ACL method assigns privileges, such as the right to perform computer program procedures and access data files, directly to the individual. In large organizations with thousands of employees, this can become a considerable administrative burden as access needs constantly change with changes in job responsibilities. RBAC involves creating standard tasks (e.g., cash receipts processing) called roles. Each role is assigned access privileges to specific data and procedures, such as the right to add a record to the cash receipts journal. Once a role is created, individuals are assigned to it. Using this technique, individuals may be easily added or deleted from roles as their job responsibilities change. Individuals assigned to a particular role may not access program procedures and data that are not specified by that role.

PTS: 1

12. What unique control problems does EDI pose?

ANS:

EDI poses unique control problems for organizations. One problem is ensuring that, in the absence of

explicit authorization, only valid transactions are processed. Another risk is that a trading partner, or someone masquerading as a trading partner, will access the firm's accounting records in a way that is unauthorized by the trading partner agreement.

PTS: 1

13. Describe a credit check in an advanced technology system.

ANS:

In an advanced technology system, the system logic, not a human being, makes the decision to grant or deny credit based on the customer's credit history contained in the credit history file. If credit is denied, the sales clerk should not be able to force the transaction to continue. However, to allow for operational flexibility in unusual circumstances, the system provides a management override option that may only be performed by a supervisor. Any such overrides should be fully documented in the credit history record and in management reports.

PTS: 1