



# STANDARD OPERATING PROCEDURES (SOPs) ACCOUNTS RECEIVABLE

## STANDARD OPERATING PROCEDURES

### Accounts Receivable

# SYSTEMS OF INTERNAL CONTROL

## OVERVIEW

The Systems of Internal Control / Accounting Manual outlines the procedures and controls generally required to enhance the company's Accounting and Financial reporting. It is designed to specifically achieve the following within the organisation:

- Avoid or mitigate risk
- Enhance the accuracy of information
- Encourage accountability
- Ensure validity of accounting and financial information
- Segregation of authority and duties
- Encourage effective use of resources
- Promote awareness and good practice among employees
- Promote good corporate governance practices
- Improve efficiency within the organisation

## INTRODUCTION

All Accounts receivable for the various departments are managed by the Accounting department. The Accounts Receivable process begins with vetting of customers, whereby potential credit customers undergo a pre-determined vetting process to assess credit worthiness.

STANDARD OPERATING PROCEDURES  
Accounts Receivable

## Table of Contents

1	Customer vetting .....	4
2	Dispatch to Customers.....	4
3	Invoicing and Recording.....	4
4	Receipt of Payment.....	5
5	Credit Management.....	6
6	Organogram .....	8
7	Reports for submission .....	8

# STANDARD OPERATING PROCEDURES

## Accounts Receivable

### 1 Customer vetting

- 1.1 All new customers should undergo vetting to ensure that they are credit worthy.
- 1.2 This credit worthiness check is done as follows:
  - Obtaining credit scores of potential customers from reputable credit bureaus;
  - Perform background checks on the Company Directorate;
  - Confirm the customers marketplace relationships through internet searches and from any other industry sources.
- 1.3 A credit worthiness check form is completed by the Salesclerk (NAME) and reviewed by the Operations Director (Mr. Muza (Jnr.)).
- 1.4 The credit worthiness check form will include suggested credit limits for each debtor which should be specifically approved by the Directors. The predetermined credit levels are as follows:
  - Cash on delivery (COD)/ Prepayments
  - 0- US\$ 10,000
  - \$US 10,000- US\$50,000
  - Over US\$ 50,000.
- 1.5 Once a customer is deemed to be credit worthy the Managing Director, () will review the assessment and approve it.
- 1.6 Customers should be informed of their credit status and credit terms extended to them by the Company e.g. credit limits, penalties for late payment.
- 1.7 As soon as the debtor is approved, the Assistant accountant () will enter the customers details into pastel, which will form part of the pre-approved list of debtors. The credit limit will also be set in the Pastel Accounting system to prevent customers' exceeding their credit limits.
- 1.8 Credit limits should be reviewed periodically to ensure that the customers are operating within their approved limits.
- 1.9 All other customers should trade on a COD basis.

### 2 Dispatch to Customers

- 2.1 When the Factory Manager has confirmed the completion of a customer order the Stores man will initiate the Delivery Note for the customer order.
- 2.2 Only the pre-approved debtors should be issued goods without any proof of payment.
- 2.3 As soon as the delivery note has been prepared by the Stores man, it is sent to the Accountant for review and approval. The Accountant checks against the system if the name of the customer to which goods are being dispatched to forms part of the pre-determined list of debtors and signs the delivery note as a way of approval.
- 2.4 Security guard should always inspect all delivery notes for the Accountants approval; signature.
- 2.5 The *Inventory Business Process* highlights how deliveries should be conducted.
- 2.6 The delivery note is completed in triplicate- one copy stays with the customer; another copy is returned to the Stores person and the final copy is forwarded to the Assistant Accountant to update the inventory records in Pastel.
- 2.7 All deliveries should be signed for by the customer upon receipt and checking of the goods. A company stamp from the customer as evidence of receipt is ideal.

### 3 Invoicing and Recording

# STANDARD OPERATING PROCEDURES

## Accounts Receivable

- 3.1 All invoices that are sent to Customers must be sequentially pre-numbered and internally generated.
- 3.2 The Administrator () is responsible for preparation of all customer invoices. After receiving the signed delivery notes and customer goods received notes, a sales invoice is generated as per sales order made by the customer.
- 3.3 The sales invoice details should match to the sales order, delivery note, and customer goods received note.
- 3.4 The sales invoice should include the following features:
  - Name and address of customer;
  - Description of goods ordered and delivered;
  - Quantity of goods delivered;
  - Price per item;
  - Total invoice price;
  - Vat number;
  - Vat where applicable;
  - Terms of payment, discounts for early payment if any, pay by date and interest penalty on overdue accounts; and
  - Payment details for AMPS.
- 3.5 The Invoice is then sent out to the customer in the fastest possible way. Either by e-mail or hand delivery.
- 3.6 A debt for the customer is automatically recognised when the invoice is generated in pastel along with the sale.
- 3.7 Invoices should only be created for customers whose details would have been pre-loaded onto the system.
- 3.8 User rights for the creation of new customer account in Pastel should be limited to the Administrator (Mrs Mhaka) following approval from at least one of the Directors via the Credit worthiness check form which will state the terms (either the credit limit or cash on delivery).

## 4 Receipt of Payments

- 4.1 At the end of each month, the Administrator () prepares a customer statement detailing the amount that the customer owes at the month end cut off date.
- 4.2 This statement should reconcile to the Pastel ledger account balance. Alternatively, a statement can simply be generated from pastel detailing amount in arrears.
- 4.3 The statement is shared with the customer via email and or hand delivered by the driver.
- 4.4 When a customer makes a payment via bank transfer, the proof of payment should be obtained from customer by the Accountant. The proof should be cross referenced to the receipt on the bank statement by the Accountant and then recorded against the customers' account.
- 4.5 Cash payments are to be made directly to the Accountant, who should immediately generate a manual receipt for the customer. The cash should be locked away in the safe until it can be banked at the earliest possible opportunity. Refer to the Cashbook Business Process for banking procedures.
- 4.6 Each amount once receipt has been confirmed should have a receipt generated. All receipts should have the following details:
  - Customer Name;
  - Date issued;
  - Amount received;
  - Date of receipt of funds;
  - Pre-numbered and sequential;

# STANDARD OPERATING PROCEDURES

## Accounts Receivable

- Completed in triplicate (where manual); and
  - Company letterhead.
- 4.7 For the manual receipts, the customer is given an original “top” copy, one copy remains in the receipt book and another is attached to the corresponding invoice which should be stamped as paid and filed away.
- 4.8 All receipts should be captured in Pastel by the Assistant Accountant () and reviewed by the Accountant before updating.

## 5 Credit Management

- 5.1 At each month end closing date, the Administrator () shall prepare a debtor age analysis. The analysis shall include the following:
- Name of debtors;
  - Total balance owed by each debtor;
  - Ageing of the debt by invoice/ credit note for the periods.
  - Ageing categories can be shown for the following periods:
    - Current: 16- 30 days,
    - 31- 45 days,
    - 46-60 days,
    - 61-90 days,
    - 91-120 days, and
    - Over 120days.
  - Each debtor in the schedule should be marked as, not yet due, due and overdue. Colour codes will also be acceptable for easy identification of data status. For example, not yet due can be marked in green, due in amber and overdue in red.
  - Interest payable on overdue accounts should also be summarised separately on the schedule.
- 5.2 The ageing analysis should be reviewed and signed by the Accountant as evidence of review.
- 5.3 Debtors who are not yet due should be notified by the Accountant (NAME) 7 days prior to their accounts becoming due to ensure they make their payments on time.
- 5.4 Debtors categorised as due should be followed up on promptly by the Administrator (Mrs. Mhaka) by sending payment reminders; telephonic conversations and where necessary following up in person.
- 5.5 It should be the policy for the Company to charge penalty interest at the prevailing interest rate on all debts in excess of 60 days.
- 5.6 Should a debtor be overdue for a period of more than 60 days months and all the follow up procedures have been made, the following should be considered:
- Engaging the services of debt collectors to recover the amounts due. This should be considered in the context of all debts in excess of 120 days or for instances where the relationship with the debtor has been damaged and is beyond reasonable repair. OR
  - In the case where it does not make economic sense to engage a debt collector, i.e. amount being sought after is less than cost of engaging debt collector, a bad debt expense journal should be prepared. All Journals for the write off debt require authorisation from the Operations Director and the Managing Director prior to posting into Pastel.
- 5.7 Overdue debtors should be formally notified in writing (or email) of the interest penalty that will be accumulating on their accounts daily.
- 5.8 The procedure for bad debts subsequently recovered is as follows:

## STANDARD OPERATING PROCEDURES

### Accounts Receivable

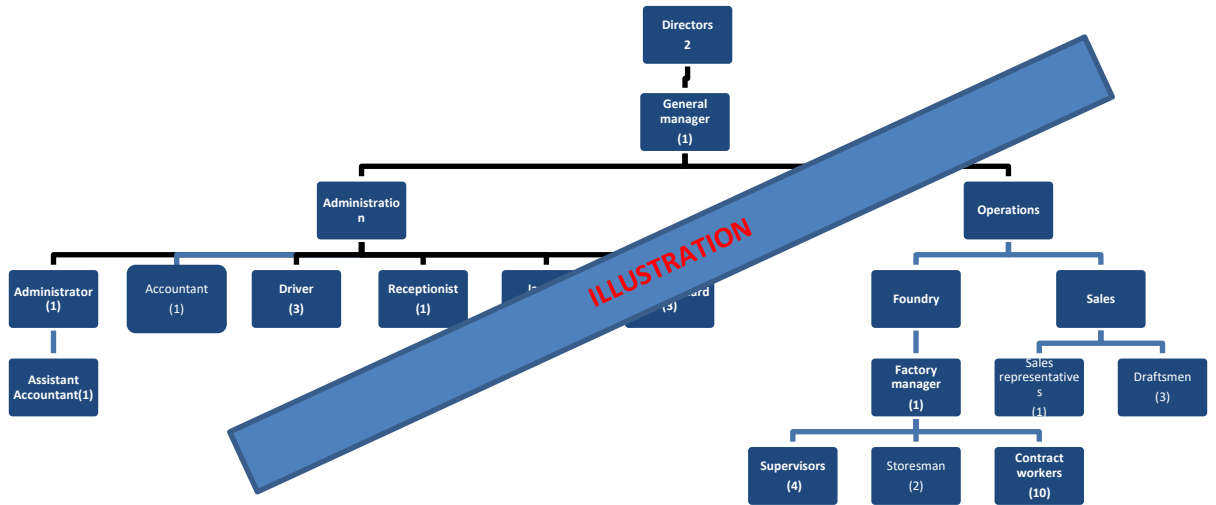
- The accountant needs to first match the payment received to the account that was previously deemed as a bad debt to ensure that the payment received is in fact a bad debt subsequently recovered.
  - The amount received can be the full amount of the bad debt or only a partial portion of the bad debt could have been recovered, care should be taken in noting the actual amount so as not to reverse out the wrong amount for the bad debt.
  - Using the proof of payment received from the debtor or preferably the bank statement as the source document the Accountant can prepare the journal to reverse out the bad debt with the amount of the subsequently recovered amount. Another journal is also prepared which will recognise payment of debt from a debtor.
  - The journal is then sent to either the Managing Director or Operations Director for review and approval. Either of them on approval will sign off and the Accountant will proceed to process the journals.
- 5.9 Debtors who have made payment for their previously recognised bad debts and now seeking reinstatement of their credit status should undergo a 3month probationary assessment. In those 3 months all business done with the said Debtor should be on a COD basis to assess liquidity and solvency of the debtor.
- 5.10 After the probationary period, a new credit worthiness test is conducted as is done for all new customers. Only after the customer has passed this test can their previous credit status be re-instated. Rights and authorisation over the re-instating of customers credit status remain the prerogative of the Executive Directors.

## 6 Maintenance of the Customer Masterfile

- 6.1 It is the responsibility of the Accountant to maintain the customer Masterfile.
- 6.2 The accountant has authority to add new customers and edit existing ones to the extent that their credit limit is not in excess of USD \$10000.
- 6.3 Customers beyond the USD \$10000 limit can only be added or edited pending authorisation from the Managing Director.
- 6.4 Each person will have different log in credentials as a security measure to prevent unauthorised access. It should be company policy to discourage employees from sharing passwords with each other. Serious ramifications should be put in place for circumventing this policy.
- 6.5 Atleast once a month the directors should obtain a copy of the Masterfile and inspect it to ensure that all the debtors listed in the Masterfile where pre-approved by them and that they are categorised within the appropriate credit limit category. Directors could also consider random reviews in a month which are not pre-determined.
- 6.6 All Masterfile amendments regardless of person who made them should after amendments generate log reports and exception reports which are to be reviewed by the Directors for Validity to keep track of who logs into the Masterfile at any point and for what reason they log in for.

STANDARD OPERATING PROCEDURES  
Accounts Receivable

7 Organogram



8 Reports for submission

Report Type	Purpose	Frequency	Deadline	Prepared by	Reviewed by
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## STANDARD OPERATING PROCEDURES

### Accounts Receivable

Debtor Age Analysis	Keeps track of expected timing of payments and to mitigate risk of debtors defaulting	Monthly.	Every Friday 3pm a week after month end	Accountant	Executive Directors
Customer Receipt Summary	Analyse and ascertain which debtors are high value and which ones are low value	Monthly.	3pm last Friday of the month.	Assistant Accountant	Accountant
Customer listing summary	Monitor all debtors in the system to ensure they were all pre-approved	Monthly	3pm each Friday.	Assistant Accountant	Accountant Operations Director

### KEY PERSONEL IN BUSINESS PROCESS

Managing Director	Mr. xxx
Operations Director	Mr. yyy
Factory manager	Mr. zzz
Storesman	Mr. www
Draftsman	Mr. xxx
Receptionist	Mrs. yyy
Administrator	Mrs. zzz
Assistant Accountant	Ms. www
Security Guard	Mr. xxx
Drivers	Mr. yyy

STANDARD OPERATING PROCEDURES  
Accounts Receivable

This being a true reflection of the procedures to be implemented going forward:

**Head of Department**.....

**Signed**.....

**Date**.....