

# ENTERING CASH RECEIPTS

To use the Accounts Receivable System fully, it is important to enter all cash receipts promptly and to apply them to the invoices that are being paid. If application is complete and current, the Accounts Receivable reports will reflect the facts and be an extremely useful tool in credit control and collection. If not current and/or not complete, the usefulness of the reports is greatly diminished.

All cash received from customers or other sources should be collected and deposited in the bank regularly. This information must also be entered into the computer in a timely manner, preferably on the same day as the deposit.

The following procedure is suggested:

- Collect all cash and checks received and prepare the deposit slip.
- Apply payments to customer accounts. Make at least one entry for each check received from a customer.
- Enter any other type of cash received as "miscellaneous cash".
- Enter debit or credit adjustments to correct small overpayments, underpayments, etc.
- Request an audit version of the Cash Receipts Journal.
- Check the accounting entries on the journal. The total posted to cash should equal the total of your deposit. Make any necessary corrections.
- Request a close of the Cash Receipts Journal.
- Reconcile A/R and G/L balances.

If at all possible, do not combine the information from more than one deposit slip. This will confuse your audit trail.

Apply the payments to the invoices as you enter the receipts. Enter a receipt as unapplied cash only in those cases when the invoice has not been charged to the customer's account or for overpayment. In all other cases, do everything you can to determine the correct application and make that application right away.

## Key Points

**Close the journals every day.**

This makes sure your accounting data is up-to-date.

**When the close is complete, reconcile the A/R and G/L balances.**

After each close or at the end of the day, ask to ***Reconcile A/R and G/L balances***. This transaction

compares the total of open A/R transactions to the A/R account on the G/L. These should be equal. If they are NOT equal, then you have an error of some sort that needs to be addressed.

It is important that you do this transaction every day. It is much easier to find problems that happened during a single day than for a longer time period.

**Don't skip this step!!!**

## **ENTERING A CHECK FROM A CUSTOMER**

Payments from customers and other cash receipts are entered under the "Update A/R File" transaction on the Accounts Receivable menu. There are usually two screens of information required for this transaction. On the first screen you will enter some general information such as the customer number and the amount of the check. On the second screen, you will see the detail of the customer's account and you may indicate what invoices are to be cleared by the payment received.

In this example, a check has been received from customer # 000038, A-1 Transportation, for \$1367.11. It is payment in full for two invoices. The handling of more complicated situations such as overpayments, partial payments or sales tax corrections will be handled in separate discussions.

### **Key Points**

**Enter the general information about who the customer is and the amount of the check.**

You may look up the customer number by entering one of the invoice numbers if that is easier. The check number and the name on the check are optional but may be a helpful cross reference later. The name on the check will default to the customer's name.

**Verify that the cash receipt date displayed matches the date of the deposit**

The cash receipt date will default to the current date. If this is not the date of the deposit, change it to be the deposit date. The book period to which the related accounting entries will be posted will be based on this date. If the date shown is not the correct date and is shown in yellow so that you cannot change it, you probably have previous payments already entered for a previous day's deposit or other types of adjustments. Exit and close the Cash Receipts Journal for those entries and start fresh with the current deposit date.

**On the second screen that shows the detail, mark the entries that are being cleared by the check.**

In this case there are two ways to do it.

- Click on the checkbox at the beginning of the line for each invoice being cleared.
- Since we are clearing all the open invoices, you can also click on the "apply to oldest balance" link. Clicking this link will apply the payment to invoices, starting with the oldest one on file and continuing until there are no more open invoices or the amount of the payment has been used up.

**Click on the "Submit" button to post the payment and your application information.**

If there is a problem and you do not want to enter the application at this point, you can click on the "Exit" button to exit the detail screen. Neither the payment nor the application will be posted. This would be appropriate if you realized you had selected the wrong customer, for example.

## **ENTERING A DEPOSIT FROM A CUSTOMER**

Payments from customers and other cash receipts are entered under the "Update A/R File" transaction on the Accounts Receivable menu. If you receive a prepayment from a customer for an order, you should enter this as a deposit. Entering the payment as a "deposit" rather than an ordinary cash receipt triggers a couple of actions:

- **The amount of the payment is posted to the "Customer Deposits" liability account** on the general ledger instead of to the "Accounts Receivable" account. When the order is completed and the deposit amount is applied to the order, the deposit amount will be removed from the "Customer Deposits" account instead of the "Accounts Receivable" account.
- **You may record the order number and a short description of the order** for your future reference. The order number is also used if you use the automatic application feature described below.
- **You may have deposits applied automatically when you close invoicing.** This is an optional feature. If you choose to use it, as part of the invoice close procedure, a search is made on every invoice that has a deposit amount recorded to see if there is a matching deposit in A/R. If one is found, the deposit in A/R is automatically applied to the invoice. This saves you from have to do additional application steps later.

In our example, a check has been received from customer # 100800, The Body Electric, for \$500.00. It is a prepayment for order #001261, which is an order for some T-shirts.

# Key Points

## **Enter the order number if available.**

The order number is required if you want to use the automatic application process.

The order should have already been entered before the deposit is posted. Otherwise, you will not know what order number to use.

If you match on MASTER order number instead of order number, enter the master order number instead.

## **Also enter the amount of the deposit on the order and the invoice.**

Because there are many different types of situations related to prepayments---master orders, deposits for multiple orders, etc.---no attempt is made to connect the deposit amount on the order and in A/R. These need to be entered separately.

If you enter a deposit amount on the order, that amount will be transferred to the invoice. You can also enter the deposit amount directly on the invoice.

## **There is usually no second screen needed for this type of entry since there is no application at this time.**

Occasionally, you may want to apply the deposit right away. If so, check the "Apply now?" box.

## **There are several requirements for using the automatic application of deposits.**

- **Set up the system options.**
- **The customer on the invoice must match the customer on the A/R deposit entry.**

If you use a separate A/R customer, the match is made to the A/R customer specified on the invoice instead of the customer used for reporting purposes.

- **The smaller of the deposit amount on the invoice and the remaining unapplied amount on the deposit will be used for the application.**

If the deposit amount you enter on the invoice is smaller than the amount left as unapplied on the A/R entry, the deposit amount on the invoice will be used. If you do not enter a deposit on the invoice, then this amount is zero and no application will be made.

If the deposit amount you enter on the invoice is larger than the unapplied amount on the

deposit entry in A/R, the unapplied amount on the A/R deposit entry is used.

The deposit amount that prints on invoices is whatever you enter on the invoice, regardless of whether there is a corresponding amount in A/R. However, if you enter an amount on the invoice that is larger than what is available in A/R, you will receive a warning message when entering the invoice.

- **If you have more than one deposit entry in A/R for the same order, all will be applied as appropriate. The first deposit entry in A/R will be applied, then any additional deposits that also match the customer and order information will be applied until the total deposit amount applied matches the deposit amount on the invoice or all of the unapplied A/R entries are used up.**

**If you have a deposit for several orders or a prepayment that does not apply to a particular order, enter the payment the same way but omit the order number.**

The payment will still be posted to the Customer Deposits account.

You will not be able to use the automatic application feature and will have to apply the payment manually.

## **ENTERING A CHECK THAT IS NOT FROM A CUSTOMER**

You may receive cash or checks from someone other than a customer. Examples might be vendor refunds or proceeds from a sale of office equipment. These cash receipts should be entered along with your other checks. Since there is no customer involved, no entry will be made to Accounts Receivable but your cash balance will be updated. This also allows you to tie your bank deposit to your A/R application session.

### **Key Points**

**Enter an appropriate G/L account to record the offset to the cash account.**

The account to be used will differ depending on the reason for the cash receipt.

**Nothing will be posted to your Accounts Receivable detail file.**

**The cash entry will appear on your Cash Receipts journal.**