

Example Process Narrative – Accounts Receivable

PURPOSE

To identify and record the significant documents, systems and procedures used in the *Company's* Accounts Receivable process.

FINANCIAL OBJECTIVES/SIGNIFICANT ACCOUNTS (ASSERTIONS)

- Cash (Rights & Obligations, Completeness, Existence, Valuation)
- Account Receivable (Rights & Obligations, Completeness, Existence, Occurrence, Valuation)

KEY SUB-PROCESSES

Within the A/R process are the following key sub-processes:

- Billing
- Cash Receipts
- Accounts Receivable

BACKGROUND

The Company develops online entertainment primarily for the interactive gaming sector. *Game A*, a PC-based Massively Multiplayer Online game (MMO) provides the majority of the *Company's* revenue. Other significant MMOs include *Game B* and *Game C*. *The Company* also develops and sells titles for PlayStation 2 that are single player and multiplayer online games.

From these products, the *Company* has 8 different types of revenue with the following percentage breakdown:

Revenue Type	% of Total Revenue
Online (subscriptions)	51%
Retail	15%
Development	16%
Ad	< 1%
Royalty	5%
Other (digital downloads, game cards & station store)	12%

Accounting, the owner of the AR process, consists of approximately 20 individuals who ultimately report up to the Vice President of Accounting. Below is a list of departments within Accounting, including the key positions, which are major players within the A/R process:

Department	Position Title	Position Abbreviation	Individual in Position
Finance	Vice President of Accounting	VP Acct	
Finance	Controller	Cont	
Finance	Accounting Manager	Acct Mgr	

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Department	Position Title	Position Abbreviation	Individual in Position
Finance	Accounting Manager-Revenue	Acct Mgr-Rev	
Finance	A/R Staff Accountant-Retail	Staff Acct-Retail	
Finance	A/R Staff Accountant-Online	Staff Acct-Online	
Finance	Accounts Receivable Specialist	AR Spec	
Finance	Chief Financial Officer	CFO	
Platform	Senior Engineer	Sr Eng	
Business Development	Vice President of Business Development	VP Bus Dev	
Business Development	Manager of Business Development	Mgr Bus Dev	
Legal	Senior Vice President/General Counsel	SVP/GC	
Legal	Director of Legal	Dir Legal	
Legal	Legal Associate	Legal Assoc	
Sales	Vice President of Sales	VP Sales	
Sales	Operations Assistant	Oper Assistant	

SYSTEMS

The following systems are used by in the A/R process:

System	Description	Process
Great Plains	Accounting software General Ledger Package	General accounting, fixed assets, A/R, A/P and financial reporting
Oracle	Database used to track and house sales information	Revenue/Sales
Oracle Discoverer	Web based reporting software used to extract data stored in Oracle database	Revenue/Sales
Edisoft	Software used to receive EDI transactions	Order Processing
MS Access	Database used to track RMAs and MDF commitments/expenses	Revenue/Sales

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A/R PROCESS

Billing

Customer Set-up:

THE COMPANY's customers that hold an actual account with *THE COMPANY* (Retail process only) consist of various retail stores and distribution centers. *THE COMPANY's* customer base is very small (approximately 20), limited to the large players in the industry.

A potentially new retail customer is initially identified by the Sales department (based on either *THE COMPANY's* or customer's interest). Upon mutual interest of the company becoming *THE COMPANY's* customer, a credit application is sent to the potential customer by Finance, and Sales and Legal work in conjunction with the customer to create a customer contract (based on a standard template). Once the contract is complete and approved by Legal, and the credit application has been approved by Sales and Finance (see credit extension sub-process), the contract is sent to the customer by Legal for signature approval. When Legal receives the signed contract back from the customer, it is forwarded to Sales where the VP of Sales will make the final approval (via signature). The final signed contract is filed in Legal and copies are distributed to Sales and Accounts Receivable.

Accounts Receivable (dept within Finance) is responsible for entering new customers into the system (Great Plains), and all A/R employees have access to enter and change customer info. The Staff Acct-Retail manually creates a Customer ID (first 4 letter of customer's first name and first letter of customer's last name), and enters all available information into the system such as Customer ID, billing address, shipping address, phone number, fax, salesperson ID, payments terms, credit terms, applicable discounts/allowances etc. As a control point, the system does not allow duplicate customer IDs; however, there is currently no review or approval of new customer information entered in the system. Since space is limited in the system, a separate spreadsheet is kept by the Staff Acct-Retail containing all the various contacts at the customer. This contacts spreadsheet is password protected and only the staff acct has access to the password to make changes and/or additions. The Staff Acct-Retail is also responsible for obtaining the customer's resale certificate. This certificate must be received prior to the first order shipment and, once received, is filed in the A/R Dept with the customer contract.

Generally, changes to customer information (i.e. billing address) are brought to *THE COMPANY's* attention by the customer or discovered during a regular collections call; however, changes to customer info do not require written notification from the customer. All changes are entered into the system by the staff acct. Changes are not currently reviewed or approved.

Credit Extension:

Once Finance receives the potential customer's credit application, the Staff Acct-Retail performs the credit investigation, which includes review and verification of legal business name, type of business, address, years in business, financial statements, distributor trade references, bank references, and credit agency report. The Staff Acct-Retail will recommend whether the customer should be allowed to purchase on credit or must pay in advance (no actual credit limits are set), and the VP of Sales and Acct Mgr will approve this recommendation via signature on the credit investigation report. The approved credit investigation report and credit application are then filed in Finance, by customer ID, awaiting the final signed customer contract. Customer credit terms are evaluated during the weekly A/R Aging/Reserves Meeting and any necessary system adjustments are made to the applicable customer accounts by the Staff Acct-Retail. TO BE CONTINUED