

Chapter 7 - INTERNAL CONTROLS-RECEIVABLES

Separation of Duties

The following tasks should be separated (performed by two different people):

Task

1. Accounting for receivables and collecting receivables.
2. Accounting for receivables and granting credit.
3. Granting credit and sales.
4. Accounting for the accounts receivable subsidiary ledger and the general ledger.

Reason

1. The accountant could steal cash collected from customers and hide the theft by modifying the accounting records.
2. The accountant might refrain from writing off uncollectible accounts because that might point to poor judgment in granting credit.
3. A salesperson might overlook poor credit risks in an eagerness to get a sale (and commission).
4. Employees would be unable to check for errors by comparing the total of the customer accounts in the subsidiary ledger to the balance of accounts receivable in the general ledger.

In the summary, the operations of selling, credit approval, collection of accounts receivable, and accounting for accounts receivable should be performed by different people.