INTRODUCTION

Questions to be addressed in this chapter include:
- What are the basic business activities and data processing operations that are performed in the revenue cycle?
- What decisions need to be made in the revenue cycle, and what information is needed to make these decisions?
- What are the major threats in the revenue cycle and the controls related to those threats?

INTRODUCTION

The primary objective of the revenue cycle:
- Provide the right product in the right place at the right time for the right price.

INTRODUCTION

Decisions that must be made:
- Should we customize products?
- How much inventory should we carry and where?
- How should we deliver our product?
- How should we price our product?
- Should we give customers credit? If so, how much and on what terms?
- How can we process payments to maximize cash flow?

INTRODUCTION

In this chapter, we’ll look at:
- How the three basic AIS functions are carried out in the revenue cycle, i.e.:
  - Capturing and processing data.
  - Storing and organizing the data for decisions.
  - Providing controls to safeguard resources (including data).
REVENUE CYCLE BUSINESS ACTIVITIES

- Four basic business activities are performed in the revenue cycle:
  - Sales order entry
  - Shipping
  - Billing
  - Cash collection

SALES ORDER ENTRY

- Sales order entry is performed by the sales order department.
- The sales order department typically reports to the VP of Marketing.
- Steps in the sales order entry process include:
  - Take the customer’s order.
  - Check the customer’s credit.
  - Check inventory availability.
  - Respond to customer inquiries (may be done by customer service or sales order entry).

SALES ORDER ENTRY

- How IT can improve efficiency and effectiveness:
  - Orders entered online can be routed directly to the warehouse for picking and shipping.
  - Sales history can be used to customize solicitations.
  - Choiceboards can be used to customize orders.
  - Initially popular with Dell and Gateway.
  - Now used for purchases of shoes and jeans!

SHIPPING

- The second basic activity in the revenue cycle is filling customer orders and shipping the desired merchandise.
- The process consists of two steps
  - Picking and packing the order
  - Shipping the order
- The warehouse department typically picks the order
- The shipping departments packs and ships the order
- Both functions include custody of inventory and ultimately report to the VP of Manufacturing.
BILLING

• The third revenue cycle activity is billing customers.
• This activity involves two tasks:
  – Invoicing
  – Updating accounts receivable

REVIEW OF REVENUE CYCLE ACTIVITIES

• Before we move on to discuss internal controls in the revenue cycle, let’s do a brief review of the organization chart, including:
  – Who does what in the revenue cycle?
  – To whom do they typically report?

CONTROL OBJECTIVES, THREATS, AND PROCEDURES

• In the revenue cycle (or any cycle), a well-designed AIS should provide adequate controls to ensure that the following objectives are met:
  – All transactions are properly authorized.
  – All recorded transactions are valid.
  – All valid and authorized transactions are recorded.
  – All transactions are recorded accurately.
  – Assets are safeguarded from loss or theft.
  – Business activities are performed efficiently and effectively.
  – The company is in compliance with all applicable laws and regulations.
  – All disclosures are full and fair.

CONTROL OBJECTIVES, THREATS, AND PROCEDURES

• While we’re going to step through a number of common threats in the revenue cycle, it’s a good idea to memorize the internal control objectives so you can think of the relevant threats on your own.
• If you don’t like the text version, click on the button below to see a rhyming version of the same objectives.

Poet’s Corner
CONTROL OBJECTIVES, THREATS, AND PROCEDURES

Internal control is just a ballad.
Are all recorded transactions valid?
Are all valid transactions recorded?
If not, there may be something sordid.

And it should cause severe distraction
If no one’s authorized the transaction.

Are entries in the right amount?
Are they in the right account?
Are they down in the right time?
If not, your little bells should chime.

Are we efficient? Are we effective?
Is our compliance with the law defective?
Are assets really and safely there?
Are all disclosures full and fair?

THREATS IN SALES ORDER ENTRY

• The primary objectives of this process:
  – Accurately and efficiently process customer orders.
  – Ensure that all sales are legitimate and that the company gets paid for all sales.
  – Minimize revenue loss arising from poor inventory management.

• Threats in the shipping process include:
  – THREAT 5: Shipping Errors
  – THREAT 6: Theft of Inventory

THREATS IN BILLING

• The primary objectives of the billing process are:
  – Customers are billed for all sales.
  – Invoices are accurate.
  – Customer accounts are accurately maintained.

• Threats that relate to this process are:
  – THREAT 7: Failure to bill customers
  – THREAT 8: Billing errors
  – THREAT 9: Errors in maintaining customer accounts
### Threats in Cash Collection
- **Primary Objective of the Cash Collection Process:**
  - Safeguard customer remittances.
- **Major Threat to this Process:**
  - **Threat 10:** Theft of cash

You can click on the above threat to get more information on:
- The types of problems posed by the threat.
- The controls that can mitigate the threat.

### General Control Issues
- **Two General Objectives Pertaining to Activities in Every Cycle:**
  - Accurate data should be available when needed.
  - Activities should be performed efficiently and effectively.
- **Related General Threats:**
  - **Threat 11:** Loss, alteration, or unauthorized disclosure of data
  - **Threat 12:** Poor performance

You can click on any of the threats below to get more information on:
- The types of problems posed by the threat.
- The controls that can mitigate the threat.

### Revenue Cycle Information Needs
- **Information is Needed for the Following Operational Tasks in the Revenue Cycle:**
  - Responding to customer inquiries
  - Deciding on extending credit to a customer
  - Determining inventory availability
  - Selecting merchandise delivery methods

- **Information is Needed for the Following Strategic Decisions:**
  - Setting prices for products/services
  - Establishing policies on returns and warranties
  - Deciding on credit terms
  - Determining short-term borrowing needs
  - Planning new marketing campaigns

- **Both Financial and Non-Financial Information Are Needed to Manage and Evaluate Revenue Cycle Activities:**

- **Likewise, Both External and Internal Information Is Needed:**

- **When the AIS Integrates Information from the Various Cycles, Sources, and Types, the Reports That Can Be Generated Are Unlimited. They Include Reports on:**
  - Sales order entry efficiency
  - Sales breakdowns by salesperson, region, product, etc.
  - Profitability by territory, customer, etc.
  - Frequency and size of backorders
  - Slow-moving products
  - Projected cash inflows and outflows (called a cash budget)
  - Accounts receivable aging
  - Revenue margin (gross margin minus selling costs)
**SUMMARY**

- You’ve learned about the basic business activities and data processing operations in the revenue cycle, including:
  - Sales order entry
  - Shipping
  - Billing
  - Cash Collection
- You’ve learned how IT can improve the efficiency and effectiveness of those processes.

**SUMMARY**

- You’ve learned about decisions that need to be made in the revenue cycle and what information is required to make these decisions.
- You’ve also learned about the major threats that present themselves in the revenue cycle and the controls that can be instigated to mitigate those threats.