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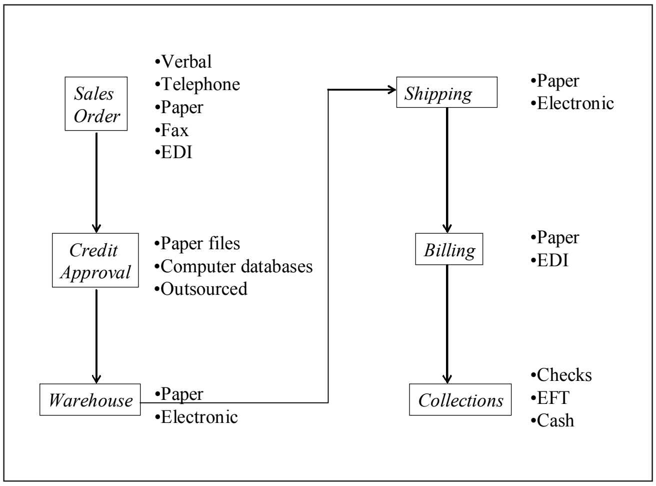
Chapter V

The Revenue Cycle

Revenue Cycle Activities

The revenue cycle deals with the delivery of products or services to customers and consequent collection of cash from customers. The standard transaction flow in the revenue cycle can be characterized as follows: sales order comes in from the customer; credit department approves credit; warehouse assesses the inventory and releases goods; shipping department ships the goods; the customer is billed based on the sales order and shipping documents; and eventually cash is collected from the customer. Traditionally, the sales department received sales orders by paper, fax, EDI and, sometimes, even verbally. The incoming sales order is in fact a purchase order from the customer, often times in the customer company document format. The purchase order then gets converted to the standard sales order and processed. If an order arrives through EDI, then purchase and sales order formats are pre-approved and based on partner agreements. The majority of companies will input the sales order in their accounting system. It will be routed to the credit department for credit approval. The credit will be approved based on prior history of the customer or, if the customer is new, by obtaining relevant credit information. The approved sales order will be forwarded to the warehouse. Here, inventory availability will be checked, goods will be released and stock release documents will be generated. The shipping department will ship goods when those arrive on the shipping docks. The documents involved are a shipping notice and bill of lading.

Exhibit 1. The revenue cycle



The billing department receives copies of the sales order, the approved sales order, stock release and shipping notice. The billing department will then reconcile these documents and bill the customer. The entry will be made in the accounts receivable journal and, subsequently, summary totals transferred to the general ledger.

The collection process begins with check and remittance advice, which contains payment-related information, coming to the mail room. These two are separated and the check and remittance list (a list of all received checks) goes to the cash receipts department. The check is deposited and the remittance list and remittance advice are forwarded to the accounts receivable department. An entry is made in the accounts receivable ledger and the summary totals are forwarded to the general ledger. Internal control measures include comparing bank deposits with the summary totals of the accounts receivable ledger and bank reconciliations.

General activities in the revenue cycle are easy to describe; however, there is no standard processing set up for these activities. The types of documents involved, processing methods, billing methods, internal controls and collection methods vary depending on the technology, industry and market focus of the involved businesses. The sophistication of the accounting software package or ERP system, extent of the integration among homegrown legacy systems and accounting software, and extent of the coordination among departments are also some deciding factors. The practices range from manual documents to highly automated, Web-enabled methods. Of course, no one solution is right for all companies.

The Internet and ERP have injected many changes in the revenue cycle. Sales orders can arrive on the Web through EDI, B2B or B2C storefronts, online exchanges, CRM or Sales Force Automation (SFA) software. In the cases of sales orders that need credit decisions in a few minutes, Web-based credit services offer automation of the entire credit approval process. Picking items in the warehouse is controlled by sophisticated WMSs, some of

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