

to accommodate both teaching styles. Following is a review of manual systems. You may, however, without loss of technical content, bypass this material and go directly to computer-based accounting systems located on page 177.

Manual Systems

The purpose of this section is to support the system concepts presented in the previous section with models depicting people, organizational units, and physical documents and files. This section should help you envision the segregation of duties and independent verifications, which are essential to effective internal control regardless of the technology in place. In addition, we highlight inefficiencies intrinsic to manual systems, which gave rise to modern systems using improved technologies.

SALES ORDER PROCESSING

The system flowchart in Figure 4-12 shows the procedures and the documents typical to a manual sales order system. In manual systems, maintaining physical files of source documents is critical to the audit trail. As we walk through the flowchart, notice that in each department, after completion of the assigned task, one or more documents are filed as evidence that the task was completed.

Sales Department

The sales process begins with a customer contacting the sales department by telephone, mail, or in person. The sales department records the essential details on a sales order. This information will later trigger many tasks, but for the moment is filed pending credit approval.

Credit Department Approval

To provide independence to the **credit authorization** process, the credit department is organizationally and physically segregated from the sales department. When credit is approved, the sales department clerk pulls the various copies of the sales orders from the pending file and releases them to the billing, warehouse, and shipping departments. The customer order and credit approval are then placed in the open order file.

Warehouse Procedures

The next step is to ship the merchandise, which should be done as soon after credit approval as possible. The warehouse clerk receives the stock release copy of the sales order and uses this to locate the inventory. The inventory and stock release are then sent to the shipping department. Finally, the warehouse clerk records the inventory reduction in the stock records.

The Shipping Department

The shipping clerk reconciles the products received from the warehouse with the shipping notice copy of the sales order received earlier. As discussed previously, this reconciliation is an important control point, which ensures that the firm sends the correct products and quantities to the customer. When the order is correct, a bill of lading is prepared, and the products are packaged and shipped via common carrier to the customer. The clerk then enters the transaction into the shipping log and sends the shipping notice and stock release to the billing department.

The Billing Department

The shipping notice is proof that the product has been shipped and is the trigger document that initiates the billing process. Upon receipt of the shipping notice and stock release, the billing clerk compiles the relevant facts about the transaction (product prices, handling charges, freight, taxes, and discount terms) and bills the customer. The billing clerk then enters the transaction into the sales journal and distributes documents to the AR and inventory control departments. Periodically, the clerk summarizes all transactions into a journal voucher and sends this to the general ledger department.