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Editorial Director & Publisher

www.ap-now.com

September 2007

What's in Your Warehouse—Are You Reporting All Your Unclaimed Property?

By J. Brooke Spotswood, Esq. and Dr Will Yancey, CPA

Accounts payable professionals, controllers and accountants understand that uncashed checks to vendors and employees are treated as unclaimed property. If the checks are not cashed or properly voided, the amount of the check should be reported and remitted to the states according to each state's specific reporting procedures. But some accounts payable professionals may be overlooking their exposure for open receivers.

Open receivers are items on inventory receiving reports that are not cleared by payments to the vendor. Open receivers are also known as unclaimed receivers or inventory over-counts. Inventory accounts payable procedures require a three-way match with three kinds of documents: receiving reports, purchase orders, and vendor invoices. These documents may be on paper or in electronic form. For high-volume warehouses and distribution centers, the open receivers file may consist of thousands of rows of data. In some enterprise accounting systems, the open receivers file is part of the Good Received/Invoice Received ("GR/IR") sub-system.

Open receivers can result in unclaimed property when there are items remaining in the open receivers file that are not cleared after several months. Let's look at some examples of how open receivers can result in what appear to be goods received but not paid for.

1) The Baker's Dozen

Consumers are accustomed to the "baker's dozen" where, for example, the donut shopkeeper may give us 13 donuts but charge us for only twelve. When we order a box of 1,000 business cards, the printer may give us a box of more than 1,000 to avoid the hassle of reprinting a few defective cards. A builder may order a load of 25,000 pounds of concrete and the shipper may send 26,000 pounds to be sure there is not a shortage and the need to make another trip. In other words it may be a common practice in a particular industry to deliver slightly more than is billed. We believe there are legal precedents for not holding a purchaser liable for goods that were not ordered,

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but that issue is beyond the scope of this article.

2) **Measurement Error**

Some commodities are measured by weight but weight can fluctuate based on humidity and temperature. For example, wood, fiber, tobacco, and other agricultural products may absorb or lose water content depending on environmental and storage conditions. The shipper may record the shipment weight as 50,000 pounds but if the product absorbs water en route, it may weigh 50,500 pounds when it is received. Industry standards-setting committees establish tolerable limits for such weight fluctuations. Even though a strict analysis of the open receivers file may show an apparent excess inventory received but not paid for, that difference may be within the tolerable error rate for the industry.

3) **Shortage Followed by Excess**

Consider a high-volume consumer products distribution center ("DC"). Suppose the shipper's bill of lading shows 24 boxes on a particular delivery but the DC's receiving staff finds only 23 acceptable boxes of merchandise. One of the boxes could be damaged and rejected. Or it is possible that one box never got onto the truck when it left the shipper's warehouse. As an accommodation to the DC, one extra box will be sent with a subsequent delivery. If the receiving clerk properly records the receipts, then this series of transactions should net to the 24 boxes on the original order. The shipper may prepare the invoice as if there were 24 boxes on one order, but the accounts payable department decides to pay for only 23 boxes based on the first receiving report. Suppose these receiving reports and vendor invoices are not perfectly reconciled—the open receivers file appears to show that an extra box was received but not paid for. This particular problem occurs when extra inventory is shipped to cover for a shortage on a previous delivery.

4) **Returned Merchandise**

Returned merchandise is a common problem with inventory shipments. The merchandise may be returned because it was not ordered, is defective, or is the wrong specifications. Although merchandise returns should be tracked by both the shipping and receiving party, some recording errors may happen. The merchandise may be recorded as received in the open receivers file, but the record of its return might not get matched in the file. Furthermore, the vendor's credit memo reflecting that merchandise return might not be linked to the open receivers file. Thus, it appears the merchandise was received but not paid for.

5) **Unclaimed Property Audits**

Unclaimed property auditors working for the states are eager to find unclaimed property for their states. Let's say several of them are questioning businesses about open receivers. These auditors are focusing on what appears to be excess inventory

Accounts Payable Now & Tomorrow (ISSN: 1557-3567) is published monthly for $349 per year by CRYSTALLUS, Inc., 171 Haut-Brion Ave., Newark, DE 19702. A one-year subscription includes 12 monthly issues plus regular e-mail transmissions of news and updates. Periodicals postage paid at Newark, DE and additional mailing offices.

received but not paid for. They assert they've identified unclaimed property that should be remitted to the state. These unclaimed property auditors will audit the receiving business to find excess inventory received but not paid for; they will audit the shipping business to find duplicate or excess payments for inventory that was not delivered.

The unclaimed property auditors exclusively home in on the accounting and receiving data. Since the unclaimed property audit is conducted several years after the events took place, no one can do a reliable physical count of the inventory.

Solutions

As you've no doubt figured out, there may be surprises awaiting you in your own warehouse. What can you do to control this problem?

1) Regularly reconcile your open receivers with merchandise accounts payable and research discrepancies where the receiver is more than 30 days old. Obviously, you will have open receivers that have not been paid; the key is that this number should not include really old receivers.

2) Be proactive with your suppliers. Either square the excess with the shipper or obtain a letter from the shipper advising no money is owed.

3) Initiate direct communication with shippers and suppliers regarding open items on the receiving end. This may involve accounts payable, inventory management, and purchasing.

4) Hire an expert to help you address and mitigate problems with open receivers. This is a relatively new area of unclaimed property exposure. Any expert should ask, as we do, how products can be tracked back to the shipper and manufacturer and they should examine the procurement policies and contractual terms. An expert should also ask about relevant industry practices and documentation procedures.

Are you thinking this is just some pie-in-the-sky problem dreamed up by some rogue auditors? We wish that were the case. Unfortunately, this is becoming an issue on a growing number of audits and companies everywhere will need to address it. **AP N&T**

About Brooke Spotswood and Will Yancey

J. Brooke Spotswood's law practice has focused on unclaimed property matters for over twenty years. In 1983 to 1987 he served in the Virginia Attorney General's office and advised the Treasurer of Virginia on unclaimed property. Since 1987, he has provided legal advice to holders of unclaimed property and spoken at numerous conferences. Mr. Spotswood received his bachelor's and master's degree from the University of Virginia in 1970 and 1972, and his law degree from the University of Richmond in 1976.

Dr. Will Yancey, CPA is an independent accounting consultant in Dallas, Texas. He advises holders and attorneys on how to sample and estimate the amount of unclaimed property. His web page at www.willyancey.com/unclaimed.htm provides many useful links on the topic. He began his accounting career at Peat Marwick in 1983. Dr. Yancey earned five university degrees including a bachelor's degree from Dartmouth College in 1978 and a doctoral degree in accounting from the University of Texas at Austin in 1987.

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