



## Bookkeeping 101: The Ceterus Way

At the request of most Franchisors, revenue is reported on the day the sale is made, not when cash is received. This accounting methodology is called the “modified cash method” and ensures your books tie to your point-of-sale (POS) system. This approach requires the use of undeposited funds accounts, which represent sales for which deposits have yet to be made. Explaining the purpose of the undeposited funds accounts is best done through a walkthrough.

Every POS is a little bit different. In almost all cases though, you can find a report that summarizes sales activity over a specific period of time. These reports also summarize various payment methods related to the sales activity. Let’s dig into an example based on a sample daily POS report, shown below.

Service Sales - \$1,000	Product Sales - \$500
Tips Collected - \$200	Tax Collected - \$30
Payment Type: Cash - \$100	Payment Type: AMEX - \$700
Payment Type: Visa/Mastercard - \$930	Total Collected - \$1,730

So how does this activity affect the undeposited funds accounts? Let’s look at the actual journal entry that gets posted to record sales activity for the day. You may not be an accountant or a debits and credits person, but I think the journal entry will help bring clarity to the matter. To keep things as simple and straightforward as possible I color coded the POS sample report and the journal entry. I’ve also included a line item explanation to help explain what each line item is actually telling you.

Account	Debit	Credit	Explanation
Service Sales		1,000	To record sales
Product Sales		500	To record sales
Sales Tax Payable		30	To record sales tax collected by the business that will be paid to the State at a later date (typically monthly)
Accrued Tips Payable		200	To record tips collected by the business that will be paid to employees at a later date (based on payroll cycle)
Undeposited Merchant Collections	930		To record amounts owed to the business from the merchant processor handling VISA, Mastercard, Discover, Debit and ACH transactions
Undeposited AMEX Collections	700		To record amounts owed to the business from the American Express merchant processor
Undeposited Cash	100		To record amounts the business received from cash sales. These amounts should be deposited into a business bank account on a regular basis (ideally daily)

To say this another way, the undeposited funds accounts are receivables on the balance sheet. They represent what is owed to the business related to sales transactions. Generally, you will receive a deposit from the merchant processor that will match your sales transactions for the day within one to three business days. American Express is typically a day or two slower. Lastly, the undeposited cash account represents cash sales. The only way this account is reduced is by making cash deposits with your financial institution.

To close the loop, let's look at the journal entry associated with the receipt of deposits related to your sales activity.

Account	Debit	Credit	Explanation
Undeposited Merchant Collections		930	Deposit received related to sales with a payment type VISA, Mastercard, Discover, Debit, ACH)
Undeposited AMEX Collections		700	Deposit received related to sales with a payment type of American Express
Undeposited Cash		100	Deposit made related to cash sales
Operating Account	1,730		Total deposits hitting the operating account