



## **Best Practices - Claims**

User guide  
2016

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## Overview

The following article explains the best practice for claims. This document represents the combined experience of both the RFMS Training and Consulting Group and the RFMS Help Desk.

While many clients have different local concerns for how Claims are processed, we have found that the following recommendations are the best practices.

Claims may arise for a number of reasons. In this document we will primarily focus on claims for materials.

## Configuration

Configuring claims requires the following steps:

1. Creation of the following accounts within correct General Ledger Parameters:
  - a. Mill Claims Due (current asset)
  - b. Claims in Process (Misc. Income)
  - c. Cost of Claims (Misc. Expense)
  - d. Cost of Claims - Labor (Misc. Expense)
2. Identifying the above created accounts in Standard Account Codes

### General Ledger Parameters

**Balance Sheet**

BEGINNING ASSETS: 100

Beginning Current Assets: 100

Ending Current Assets: 160

Beginning Fixed Assets: 161

Ending Fixed Assets: 189

Beginning Other Assets: 190

Ending Other Assets: 199

ENDING ASSETS: 199

BEGINNING LIABILITIES: 200

Beginning Current Liabilities: 200

Ending Current Liabilities: 269

Beginning Long-Term Liabilities: 270

Ending Long-Term Liabilities: 289

Beginning Other Liabilities: 290

Ending Other Liabilities: 299

ENDING LIABILITIES: 299

BEGINNING CAPITAL ACCOUNTS: 300

ENDING CAPITAL ACCOUNTS: 399

**Profit & Loss**

BEGINNING SALES INCOME: 400

ENDING SALES INCOME: 449

BEGINNING COST OF SALES: 450

ENDING COST OF SALES: 499

BEGINNING EXPENSE ACCOUNT: 500

ENDING EXPENSE ACCOUNT: 599

BEGINNING MISC. INCOME: 600

ENDING MISC. INCOME: 799

BEGINNING MISC. EXPENSE: 800

ENDING MISC. EXPENSE: 899

BEGINNING PROV. FOR TAXES: 900

ENDING PROVISION FOR TAXES: 999

Edit    Print    Exit

1

### Claims In Process

BEGINNING MISC. INCOME: 600

We recommend Claims in Process be located in the Misc Income. CIP receives a credit when the claim is processed (job costed).

2

### Cost Of Claims

BEGINNING MISC. EXPENSE: 800

We recommend Cost of Claims be included in the Misc. Expense section of the Income Statement. Cost of Claims receives a debit from processing (job costing) the claim.

3

### Mill Claims Due

Beginning Current Assets:

Mill Claims Due is the asset account, similar to Accounts Receivable, associated with the claim after it has been processed (job costed).

This account will receive a debit for the claim total when processed (job costed) and will be credited when the claim is settled (paid).

## Standard Account Codes

Enter the corresponding account numbers for the following Standard Accounts.

The screenshot shows a dialog box titled "Standard Account Codes" with a grid of account names and their corresponding numbers. Three blue circles with numbers 1, 2, and 3 are placed to the left of the dialog, with lines pointing to specific rows in the grid:

- Circle 1 points to the "Mill Claims Due" row (133).
- Circle 2 points to the "Claims In Process" row (631).
- Circle 3 points to the "Cost Of Claims" row (632).

Account Name	Account Number	Buttons
Accounts Receivable	130	[...]
Inventory	140	[...]
Money Market (Savings)	120	[...]
Checking	100	[...]
Mill Claims Due	133	[...]
Accounts Payable	201	[...]
Sales Tax Payable	245	[...]
Federal Withholding	215	[...]
Local Withholding	231	[...]
Misc. Payroll W/H	235	[...]
Customer Deposits	260	[...]
Sales	401	[...]
Discounts To Customer	405	[...]
Sales Tax Expense	407	[...]
Cost of Materials	450	[...]
Freight	451	[...]
Earned Discounts	499	[...]
Insurance	538	[...]
Payroll Taxes	557	[...]
Interest Income	600	[...]
Finance Charges	605	[...]
Claims In Process	631	[...]
Cost Of Claims	632	[...]
Inv. In Uncosted	141	[...]
Acc. Inv. For Costing	202	[...]
WIP Material	142	[...]
WIP % Billing Material	144	[...]
Cost Of Mat. % Billing	452	[...]
WIP Labor	143	[...]
Cost Of Labor % Billing	453	[...]
Acc. Labor	203	[...]
Acc. % Billing Labor	204	[...]
A/R Unbilled	131	[...]
Cost Of Labor	440	[...]
Receipts Not Deposited	112	[...]
Labor Suspense	370	[...]
Inter-Store Transfers	145	[...]

1

### Mill Claims Due

Mill Claims Due  [...]

2

### Claims In Process

Claims In Process  [...]

3

### Cost of Claims

Cost Of Claims  [...]

## Establishing

Establishing the claim is the process whereby it is determined that a claim exists and preparing the proper documentation. The steps we will discuss here involved getting the damaged material back in inventory, creating the claim, and managing the logistics of the installation.

Once material has been identified as being involved in a claim:

1. If the invoice has not yet been matched with the physical Bill Of Lading, the physical Bill Of Lading should be set aside in a special folder denoting Claims.
2. If the Bill of Lading has been matched to the invoice, the invoice should be set aside and identified as a Claim and put On Hold in Accounts Payable.

## **Preparing To Create Claim**

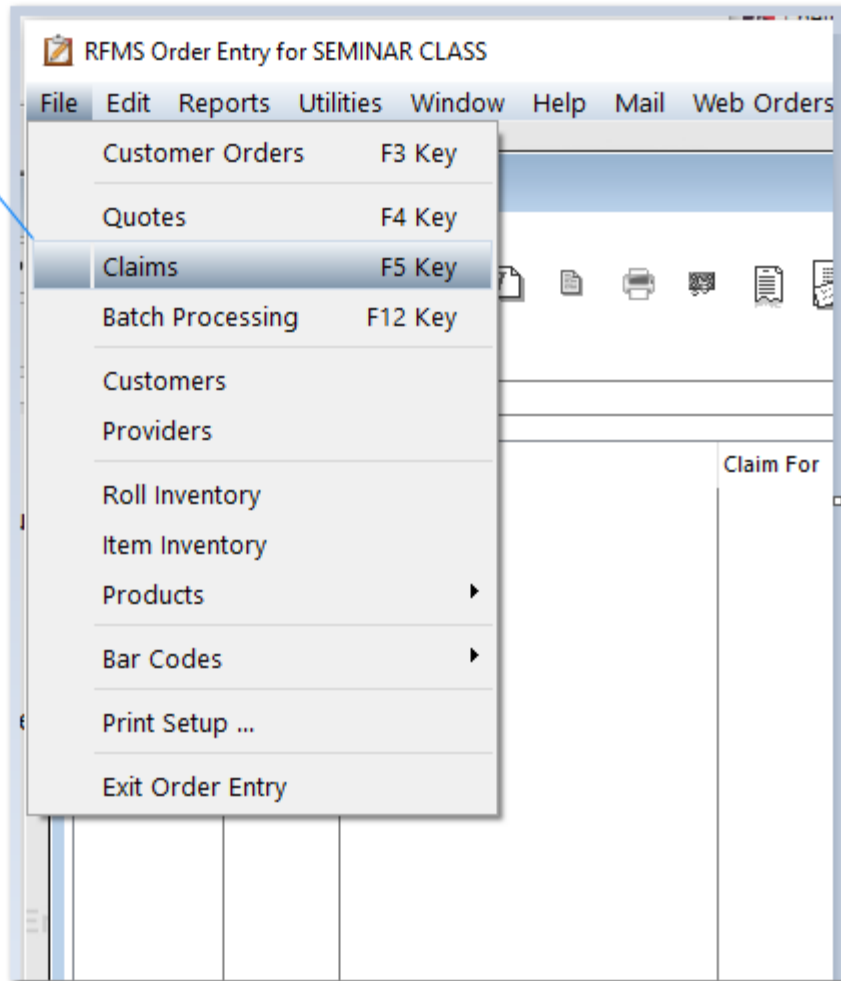
The claim creation process starts with determining the current status of the materials in question. The following actions are provided for the different possible stages of the material:

1. Material has not been installed and is currently in the store's warehouse.
  - 1.1. Skip to Add Claim
2. Material is on a jobcosted order.
  - 2.1. Create a new order under the same customer name
  - 2.2. Place this new order in a billing group with the original order
  - 2.3. Insert a negative line for the damaged material on the new order
  - 2.4. Run picking ticket (and delivery ticket for ERRM)
3. Material is on a non-jobcosted order.
  - 3.1. On the existing order, insert a negative line for the damaged material
  - 3.2. Run picking ticket (and delivery ticket for ERRM)

Once the material status has been determined from the previous steps, create the claim. From the File menu in Order Entry, select Claims

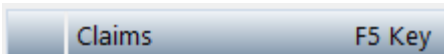
Add Claim

1



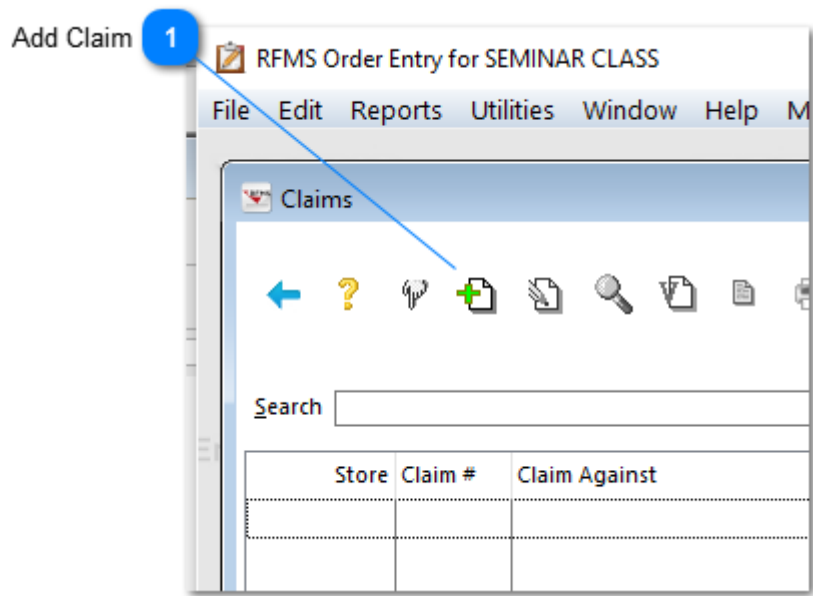
1

Add Claim



Add the claim from the File menu in Order Entry

**Create Claim**



1

### Add Claim

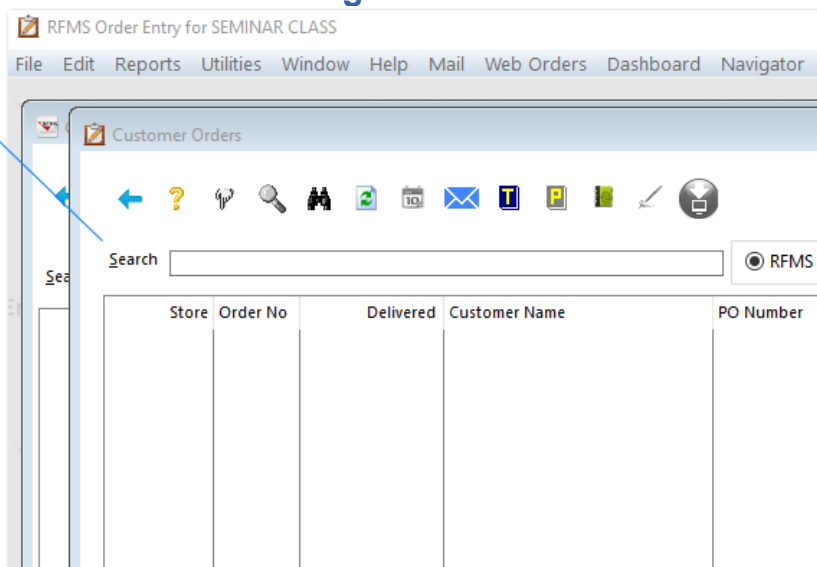


Clicking the Add Claim icon opens the main Order Entry search list. Type in the search criteria for the original order, the burden order, or new created order in the billing group. A claim must be attached to an existing order.

## Associate to Existing Order

Search For Originating Order

1



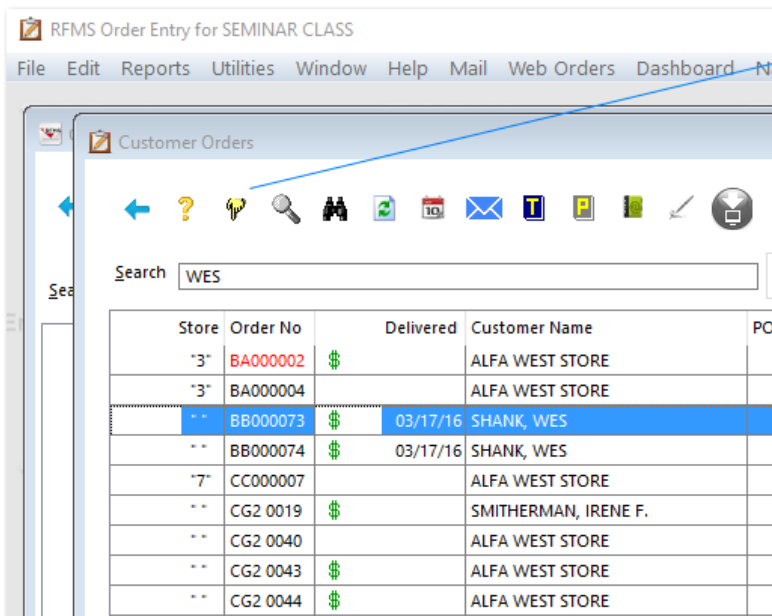
1

### Search For Originating Order

Search

Enter key search criteria for associated order.

### Select Associated Order



1

Select Associated Order

1

### Select Associated Order



Select the associated order from Order Entry.

### Claim Is Created

Customer Info 1

RFMS Order Entry for SEMINAR CLASS

File Edit Reports Utilities Window Help Mail Web Orders Dashboard Navigator

Claims

**Claim**  Hold

Claim # CG Inv\*\* F8 Store F8 Claim Date 06/06/16 F8 Work Phone F8

Claim Against Claim For

SHANK, WES  
102 WILLOW LANE  
KNOXVILLE, AL 35469  
County: TUSCALOOSA

Sales Rep #1 Sales Rep #2 Time Slot -None-

Tax Status Exempt PO Number Status \*\* No Status Specified \*\*

Claim Order BB Customer Type NO Occupied NO

Line #	Style	Product Code	Roll/Item Number	Color/Description	Status	Group				
Search Line Number 0000										
Group	PC	Roll/Item #	Style / Item Name	Color / Description	Width	Length	Quantity	Units	Price	Total

After selecting the order, key information is copied to the claim.

1

### Customer Info

Key information from the order is copied to the claim.

### Claim Against

Select Claim Against 1

RFMS Order Entry for SEMINAR CLASS

File Edit Reports Utilities Window Help Mail Web Orders Dashboard Navigator

Claims

**Claim**  Hold

Claim # CG Inv\*\* F8 Store F8 Claim Date 06/06/16 F8 Work Phone F8

Claim Against Claim For

SHANK, WES  
102 WILLOW LANE  
KNOXVILLE, AL 35469  
County: TUSCALOOSA

Sales Rep #1 Sales Rep #2 Time Slot -None-

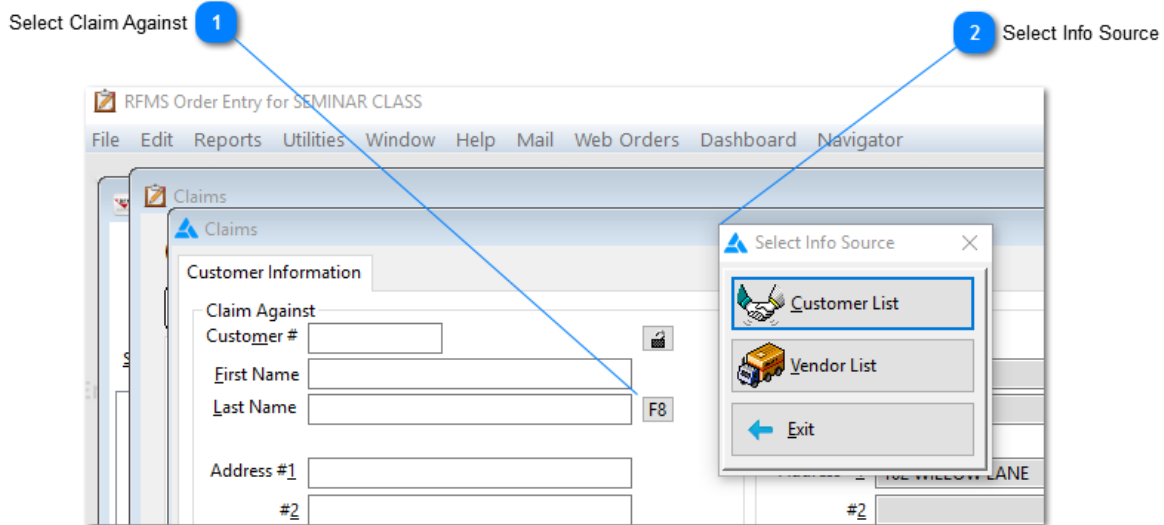
Tax Status Exempt PO Number Status \*\* No Status Specified \*\*

Claim Order BB Customer Type NO Occupied NO

Line #	Style	Product Code	Roll/Item Number	Color/Description	Status	Group				
Search Line Number 0000										
Group	PC	Roll/Item #	Style / Item Name	Color / Description	Width	Length	Quantity	Units	Price	Total

**1** Select Claim Against

Double-clicking in the Claim Against box will open the Claim Against selection window.  
**Select Claim Against**



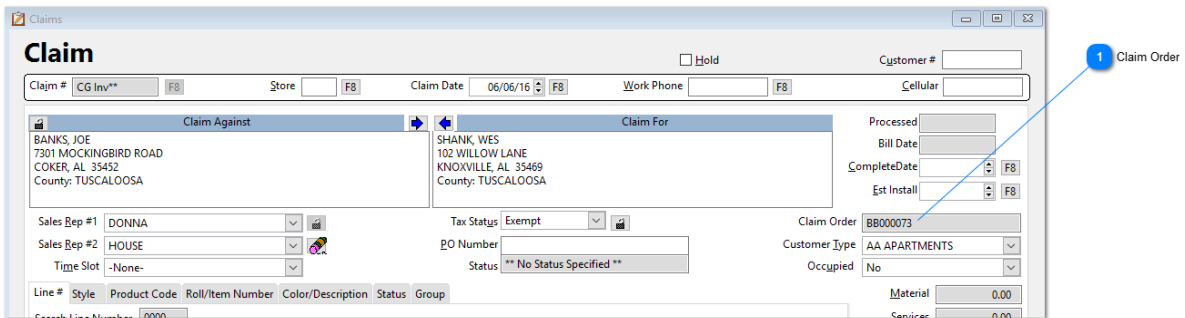
**1** Select Claim Against

Clicking the F8 control opens the Select info Source dialog to choose the Claim Against.

**2** Select Info Source

This dialog allows the selection of either a Customer from the Customer List or a Vendor from the Vendor List.

**Claim Order**



**1** Claim Order

With the exception of the previously mentioned areas and the Claim Order area, the header for the claim is the same as a regular order.

## Remaining Claim Components

After the previous information has been entered or selected, all other components of claim processing should follow all the procedures of the store. Assigning material, adding labor, creating picking ticket and work orders, should all follow the same processes.

At this point,

1. Defective material should be assigned to the claim. The material should be in the Reserved status and follow the normal picking ticket (and delivery ticket for ERRM) rules for dispersal of inventory.
2. Replacement materials should be added and ordered using one of the following:
  - 2.1. To the Original order if not previously jobcosted. Upgrade charges can be collected using this process.
  - 2.2. To the New order added to a billing group with the previous order if the the original order has been jobcosted. Upgrade charges can be collected using this process.
  - 2.3. To the Claim, if the materials never left the warehouse.
3. Labor cost should be negotiated. If labor costs are contingent based on the finalization of the claim, a separate order/claim should be established and attached to the billing group.
4. Freight costs should be reviewed and added to the claim.
5. Work orders should be issued.
6. Job checked for completion and accuracy.

## Processing

Processing a claim is the order entry equivalent of job costing. The only differences are the General Ledger accounts that are used for the transaction.

**Claims should be processed (job costed) immediately upon completion of the job, not when credit is received.** Once the installer has finished and any inspections that the store normally goes through are completed, the claim should be processed.

Many clients report waiting to process until the credit has been received. This should be discouraged. It is important not to delay and processing immediately is recommended for the following reasons:

1. Processing immediately, accurately reflects the Claim process in the financial statements. The SEC defines the revenue recognition process as being complete when ownership of the goods has shifted to the buyer, as well as the risks of ownership. The buyer must also have accepted the goods. Accordingly, when the claim has been successfully completed, the claim should be processed (job costed).
2. Processing begins the aging process for the claim and gives accurate reporting to ownership. When representatives from claimed-against companies visit the store, the claims aging should be reviewed with them on each visit.
3. An accurate representation of the true cost of the claim needs to be presented to management. If the company actually spent \$X on fixing the issue and the vendor only pays \$Y, management needs to be aware of the shortcoming. Adjusting the claim to the amount of the credit hides the true cost of the claim. **No client waits to see what the customer decides to pay and changes the order to match before jobcosting - claims should be no different.**

## Post Mill Credit

Customer Payment

Customer: SHANK, WES  
 Invoice: CL6 0001  
 Store: '' - DAVID AND SUSAN

Due: 12.80  
 Payment: 0.00  
 Balance: 12.80

VI.A  
 Swipe Credit Card

Payment Date: 06/16/16  
 Reference:  
 Expiration:  Credit Card Transaction

Register: 007 - CLEARING (Store: "4")

Merchant Code: RIFY  
 \*\*\* Default Merchant \*\*\*  
 Voice Authorization  
 Approval Code:

Check	0.00	E	D	Total Paid	\$0.00
Cash	0.00	E	D	Tendered	0.00
Card	0.00	E	D	Change Due	0.00
Discount	0.00	E	D		

Discount Account: 456  
 CLAIMS IN PROCESS

Comments:

Clear OK Cancel

1

### Register

Register 007 - CLEARING (Store: "4")

The register selected for Claims should be the internal use register. In the example, this registered is identified as "CLEARING", it may also be SUSPENSE, IN HOUSE, etc. It should not be a part of the daily processing registers such as CASH, CHECKS, VISA, etc.

2

### Discount

Discount 0.00

The amount entered here is typically the amount of the credit from the Vendor. However, it may also represent the amount to be written off or an amount received from the customer.

## Accounts Payable

Invoice Number 1

Non Discountable 2

SC	Account Code	Sub	Amount	Comment
" "	457	00	-12.80	

1

### Invoice Number

Invoice #

In the invoice field, key in the corresponding credit memo number for the vendor. If this number is not available, use the claim number.

2

### Non Discountable

Non Discountable

This field contains the corresponding dollar amount from the claim.

If this transaction's purpose is to:

1. record the credit from the vendor, click OK.
2. write-off the remaining portion of a claim, adjust this amount to \$0 and refer to the additional instructions below in "Distribution".
3. receive a payment from the customer, adjust this to \$0 and refer to the additional instructions below in "Distribution".

## Distribution

Account Code

1

SC	Account Code	Sub	Amount	Comment
" "	457	00	-12.80	

A/P Detail

Insert  
Change  
Delete  
F7 Copy

1

### Account Code

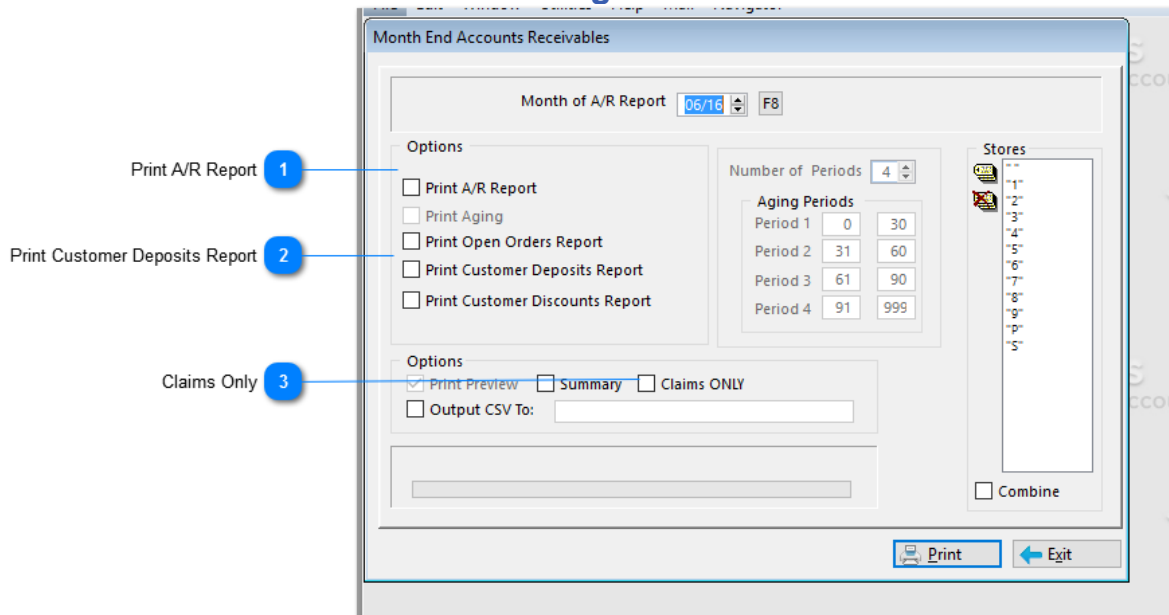
" "	457	00	-12.80
-----	-----	----	--------

Modifying the distribution allows for non-standard processing for claims that are settled outside the normal vendor credit process.

If the claim is settled by:

1. Normal process, no changes need to be made.
2. A write-off:
  - a. once the Non-Discountable amount has been entered, the distribution will be out of balance.
  - b. Click the Insert button and enter the account number associated with claims write-offs. The balancing dollars will already be in the distribution line.
  - c. Select OK for the line and OK for the total AP.
3. Additional funds from the customer:
  - a. once the Non-Discountable amount has been entered (probably changed to \$0), the distribution will be out of balance.
  - b. Click the Insert button and enter the account number associated with Suspense Account. The balancing dollars will already be in the distribution line.
  - c. Select OK for the line and OK for the total AP.
  - d. From the bank account that will be receiving the deposit, enter the amount and uncheck Deposit for Sales Income. Enter a description including the CL number
  - e. On the account distribution line, enter the General Ledger Account number for the Suspense account and accept.

## Balancing Claims



Balancing claims is essentially no different than balancing account receivable. There is one key difference in balancing Claims:

Claims does not have a general ledger account associated with "customer deposits". Therefore, credit memos received before the claim has been processed (job costed) are posted to the Mill Claims Due account - effectively netting prepaid credit memos against any processed claims.

To balance, you must run the month end Accounts Receivable report with both the Print A/R Report option and Print Customer Deposits Report option checked and add the two together. The sum should match the Mill Claims Due on the balance sheet.

1

### Print A/R Report

 Print A/R Report

Represents Claims that have been processed (job costed)

2

### Print Customer Deposits Report

 Print Customer Deposits Report

Represents Credit Memos or payments that have been paid in advance of processing (job costing)

3

### Claims Only

 Claims ONLY

Limits the reporting to just claims.