



# Accounting for Yodopay

(share this with your accountant)



Yodo drives out the cost of both card acceptance and cash handling to improve profitability while providing better accountability, security and superior customer engagement (CRM) tools.

Ideal for small independent merchants, there is no transaction fee for accepting Yodo mobile payments. Yodo encourages greater customer loyalty and enhances your profitability by reducing card fees, eliminating charge backs and speeding up transaction time.

It is not necessary that you read this paper and we are serious in suggesting you simply give it to your accountant. All you need to know is your Merchant Balance, check it online or on your POS device. If the balance is a negative number you have prepaid cash if the balance is a positive number you are owed cash.

## Debit and Credit explained

The concept of Debit and Credit can be relatively confusing primarily because it is wholly dependent upon from whose perspective a transaction is being viewed. Common usage of the words often reverses the correct meaning from an Accounting Principle's perspective.

Take for example, a simple case of an individual depositing money into a bank account. From the customer's perspective the bank account is an asset account and since the deposit has the effect of increasing this account it is a debit transaction or considered debiting the account. Taken from the banks perspective, the customer's account is a liability account and when increased (+) becomes a credit. The single transaction created a debit from the individual's perspective and a credit from the bank's perspective. Since individuals receive bank statements drawn-up by their bank, it has become a common practice for individuals to view transactions from the bank's perspective. In this case a deposit is therefore often viewed as the depositor having credited their account even when in accounting terms the opposite has actually occurred.

In the case of Yodopay, similar confusion can exist. Although when a customer loads (+) their Yodo account by tendering excess monetary value while making a purchase it is actually a debit transaction to their asset account, we will abide by the common "non-accounting" understanding that the customer has credited their account. And when they subsequently reduce (-) the value in their account by making a purchase without tendering cash, we will denote this transaction as a debit to their account. We will continue to use these conventional designations in this document and in our communications with our customers.

Let's now turn to the perspective of the Merchant whose acts as a trustee of customer's prepaid funds. For the Merchants a Yodo account is a Liability account in terms of their trust responsibilities to the customer (similar to the bank's relationship with their customers). For liability accounts; increases (+) in the outstanding amount are credits and decreases (-) in the outstanding amount are debits. When a customer tenders pre-paid cash the Merchant's liability increases (+) and the transaction from Generally Accepted Accounting Principles (GAAP) is a credit. When a customer makes a purchase from a merchant without tendering cash, the merchant provides some goods or service and the effect is to decrease (-) or debit the merchant account.

When merchants provide cash refunds for goods originally purchased on YodoPaY (or provide Cash Back to the customer for any reason) a merchant debit is created. It has the same effect if a merchant provides \$10 worth of merchandise or \$10 in cash-back to the customer; both actions create a decrease (-) to the merchant liability account and are thus debits.

***In simple terms, therefore when the merchant accepts pre-paid cash a credit is created and when they provide goods or services a debit is created.***

Unlike ***closed-loop*** pre-paid cards (gift cards) which can only be redeemed at the issuing merchant, YodoPaY is an ***open-loop*** pre-paid mobile system where funds can be both tendered and spent at any member of the Yodo Merchant Association. Yodo therefore performs a Merchant Settlement among and between merchants whenever necessary to keep merchants in balance. Typically monies will be transferred from some merchant accounts to other merchants accounts in an attempt to keep all merchants in a positive pre-paid balance. All pre-paid funds remain under the ownership and control of the Merchants themselves and following each automated Merchant Settlement process two or more Merchant will have their balances adjusted and the process will begin again.



## Yodo Merchant Settlement

**Merchant Debit** – a sum of money representing the value of goods and services provided by the merchant to Yodo customers.

**Merchant Credit** – a sum of money representing the value of cash or cash equivalents paid to the merchant by Yodo customers.

**Merchant Balance** – The difference between Merchant Debits and Merchant Credits.  
Bal = DR-CR.

Three possibilities exist just prior to any settlement process for each Yodo Merchant.

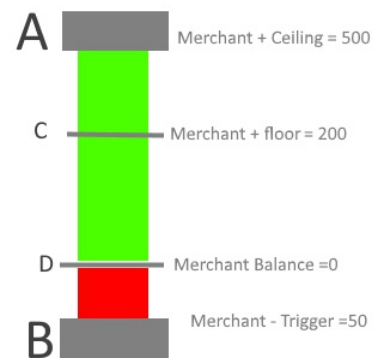
**A)** The merchant owes money to the customer(s). (more cash was tendered than goods sold)

**B)** The customer(s) owe money to the merchant. (more goods were purchased on Yodo than cash tendered)

**C)** Neither the merchant nor the customers is indebted to the other. (the cash tendered equals the value of goods sold)

Yodo initiates a merchant settlement process when necessary to keep merchants relatively balanced. This settlement process occurs automatically when an individual merchant's balance reaches some pre-defined level of imbalance (trigger-point). Merchants holding excess pre-paid cash transfer some of these funds to merchants owed cash or in danger of falling into a negative prepaid position. The process is automated, transparent and performed among two or more designated merchant settlement accounts.

Yodo endeavours to keep all merchants in a positive prepaid cash position so possibility "A" above is the most likely scenario. Trigger points are determined and agreed to with each merchant as part of their merchant agreement. They are based on factors such as an individual merchant's credit worthiness, length of time being a Yodo merchant, standing in the community etc. and may change over time. As an example, a merchant who's upper trigger point is +500, mid point is +200 and lower trigger point is -50 is represented to the right. Merchant settlement attempts to keep all merchants in the positive green region between C&D. Should the prepaid sum or merchant balance reach +500, a merchant settlement process is invoked and 250 is transferred from this merchant to another merchant who may be in danger of falling into a negative prepaid cash position to mitigate systemic risk.

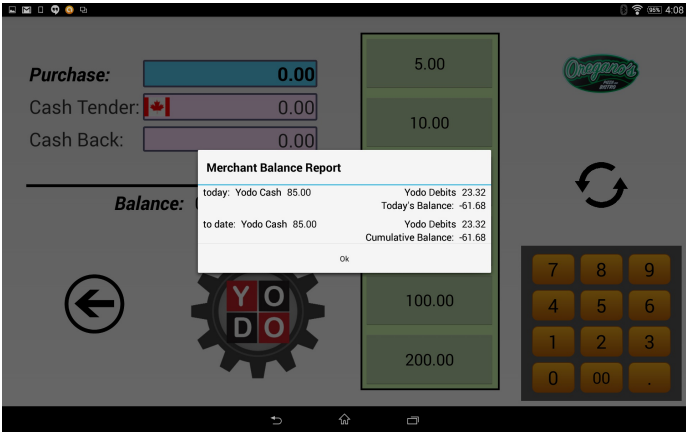


Merchants can access a real time summary report of their balance directly from the POS device by pressing the "Get balance" menu key. In the sample report shown below, the Cumulative Balance is a negative value, indicating this merchant is holding excess prepaid cash for customers so this money may occasionally need to be transferred to another merchant or member of the Yodo Merchant Association to prevent them from falling into a negative cash position. Merchants are required to fund and then maintain a sufficient balance in their designated merchant settlement account (MSA) which guarantees the solvency of the system. Merchants retain ownership of these funds and should they close their business or leave the Association these funds are transferred back to the merchant. Merchants will always be notified whenever a settlement occurs. The YODOPOS application automatically performs all accounting functions so no extra accounting is necessary. Full detailed transaction records are always accessible at the Merchant Web Services site ([www.yodo-mws.co](http://www.yodo-mws.co)).

$$\text{BAL} = \text{DR} - \text{CR}$$

$$-61.68 = 23.32 - 85.00$$

**More Accounting for Yodo Transactions**



-A pre-paid cash tender should be recorded as a debit to the asset account "Cash" and as a credit to the liability account "Yodo Pre-Paid". (Revenue is not recorded until merchandise or services are provided to the customer.)

-When a customer uses their pre-paid Yodo cash to then pay for merchandise or services, the liability account "Yodo Pre-Paid" must be reduced or debited and the revenue account must be credited. When this revenue is for the sale of merchandise, the income statement will match the cost of goods sold and other expenses with this revenue.

Result of two Yodo transactions. A \$20 load to a customer's phone **followed by** a \$12 Yodo Mobile payment. The result from a trial balance would be \$8 in the Pre-Paid Cash account and \$8 in the Yodo liability account.

If both transactions occurred simultaneously as a combined transaction, \$8 would still be the Merchant Balance reported by a balance inquiry, or amount of overage at cash out.

Merchant Book of Accounts			
Assets		Liabilities	
Pre-Paid Cash		Payable to Yodo	
20		20	
	12		12
<hr/>		<hr/>	
8		8	
<hr/>		<hr/>	

Merchant Book of Accounts			
Assets		Liabilities	
Cash		Yodo Pre-Paid	
20		20	
		12	
<hr/>		<hr/>	
	8	8	
<hr/>		<hr/>	
12		0	
<hr/>		<hr/>	
b) Sales Revenue			
12			
b) inventory			
	10	10	Cost of Goods Sold

The accounting above is an over simplification and the accounting to the left is more representative.

The first line entry a) represents the tendering of 20 Yodo Pre-Paid cash resulting in a debit to Cash and a credit to Yodo Pre-Paid.

The second series of entries b) represents a customer spending 12 on Yodo resulting in a reduction or debit to Pre-Paid on the Balance sheet and a credit to Sales revenue on the income statement and corresponding changes to inventory and Cost of Goods.

The last entry c) represents a Pre-Authorized-withdrawal of Cash and a corresponding debit to Pre-Paid due to the merchant settlement process having been invoked. The merchant no longer has a liability to the Yodo Merchant Association.

## The Big Data Picture - cross Merchants Accounting

Yodo's Cloud Transaction Switch maintains accurate global accounting records on a near real time basis inclusive of real time FX for each Yodo transaction from both the customer's and the registered merchant's perspective. Merchant and client records are constantly being updated and archived on powerful servers housed in "bank-like" data centres. All users are empowered to query their own account balances in real time at any time. The only parties authorized to accept cash and thus create Yodo pre-paid credits are registered Yodo merchants who are known, regulated and normally of fixed location. Account credits are created by customers tendering cash in excess of the goods or services being purchased from the merchant. These sums are held in trust by the originating merchant prior to customer redemption or transfer to other merchants upon Merchant Settlement. Yodo account holders have immediate and direct access to funds for subsequent purchases at all Yodo merchants and may share these funds globally and instantly with other users. The fault tolerant Yodo transaction switch is the sole repository of detailed transaction records and the arbitrator of all account balances. The merchant settlement process is performed by interbank transfers among the merchants themselves as governed by the Yodo Merchant Agreement. A simplified accounting (not using trigger points) for one-thousand transactions spread between two merchants appears below. Remember, customers create additional stored value in their accounts by tendering excess cash at time of purchase. Cash tenders by customers correspond to Merchant credits. For simplicity we assume the value of each transaction is 100 rupees.

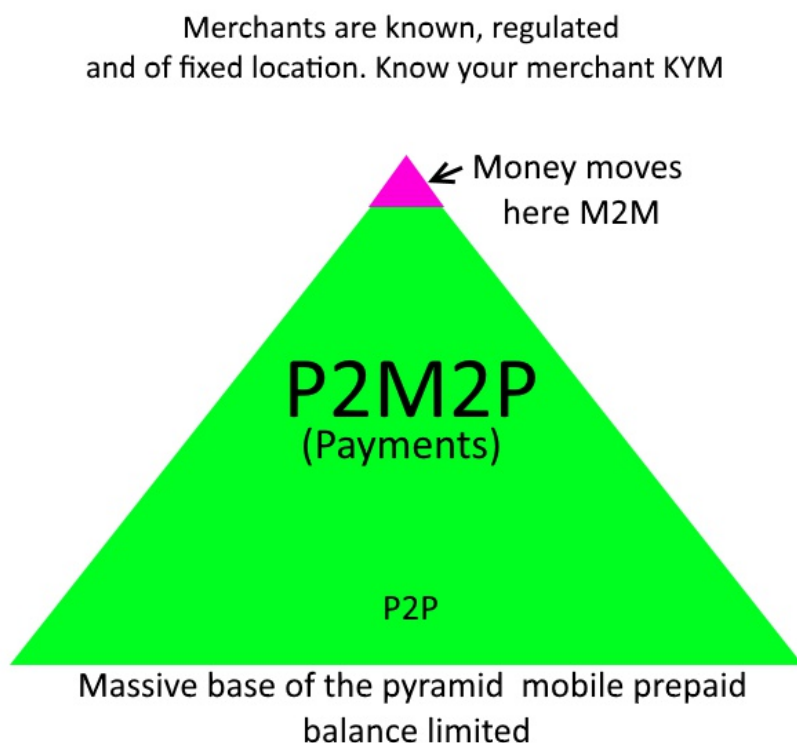
Y D O						Settlement		
		Customers		Merchants			Balance	
	SPENDS	TENDERS	Debit	Credit	Total# Trans	M-Debit	M-Credits	Bal = C-D
At Merchant A	100	400	100	400	500	R10,000	R40,000	(R30,000)
At Merchant B	300	200	300	200	500	R30,000	R20,000	R10,000
Total	400	600	400	600	1,000	R40,000	R60,000	(R20,000)
						Transfer from A to B		R10,000
						M-B Balance		0
						M-A Balance		(R20,000)
Total Value	R40,000	R60,000	R40,000	R60,000		PrePAID		R20,000
	PrePAID	R20,000	PrePAID	R20,000		PrePAID		R20,000

Assuming Merchant A has a credit balance of R30,000 in his designated Merchant Settlement account (Bank account) at the time of settlement and Merchant B has a debit balance of R10,000. Yodo only need send the merchant's credential and the settlement amount as an electronic file in ISO 20022 format to the settlement bank to cause R10,000 to be transferred from Merchant A to Merchant B to affect settlement. Customer's prepaid cash remains R20,000 and is held in trust by Merchant A to whom the majority of excess cash had been originally tendered. All merchants are responsible for depositing monies tendered by Yodo clients in excess of the goods and services purchased at the end of each day. These funds are deposited into the merchant's designated settlement account at a regulated financial institution. This insures adequate funds to meet settlement requirements are always maintained. Typically the number of Yodo credits and Yodo debits at any merchant will offset each other in any given time period such that only a small amount of cash settlement is actually required. Because all transactions are monitored in real time and merchants have prescribed settlement amounts with automated settlement any risk of loss due to "rogue merchants" is mitigated.

Yodo is responsible for the privacy, security and integrity of the entire system. Yodo archives detailed transaction records for legally prescribed periods and administers binding resolution of merchant and/or client disputes should they arise. All pre-paid cash is held in trust by the merchant to whom it was tendered before being redeemed by customers or transferred to other merchant(s) as required for Merchant Settlement. Customer's prepaid sums are 100% covered by cash reserves on deposit at regulated financial institutions. In this example, Yodo's settlement partner would make exactly one interbank electronic transfer to affect settlement. Transfer (or withdraw) 10,000 rupees from Merchant A's account and deposit this amount into Merchant B's account.

To reduce the cost of merchant Settlement and increase the speed and transparency, Yodo uses a distributed private ledger. Rather than develop this DPL, which is a type of blockchain technology, Yodo has chosen to partner with Stellar.org a not for profit company providing such advanced Fintech technology on a not for profit basis. By leveraging Stellar's Network while at the same time pegging the virtual currency (XLM) to a merchant's fiat currency we are able to eliminate volatility and ease cash-in cash-out issues while implementing Merchant Settlement across town or around the world. Stellar helps Yodo to provide the most secure and most cost efficient merchant settlement available and individual Merchants continue to operate and properly account for all transactions and all settlement in their native default currency. Merchants only need monitor their Merchant Settlement Accounts and replenish them in the event the balance drops below prescribed values. Accounts are replenished by routing some of the customer's pre-paid funds being held by the merchant to another merchant in the association thus correcting any inbalance existing among all merchants.

YodoPaY - a highly leveraged "merchant centric" mobile global payments system based on the virtualization of sovereign cash residing in and moving on the Cloud.



# Cloud Money Perfected !