

Total accounts receivable



Bradmark Wholesale General Supply ACL Case Study This paper contains the summary of the details and results of the audit tests on Bradmark's Revenue and Expenditure Cycles. The audit tests were performed through the ACL Program. 2005 Rachelle Cultura | Trixia Ebol | Christine Fonseca Mary Rose Samas | Nadaine Tongco Ross & Specter Co. October 24, 2012 1 | Page

REVENUE CYLCE Assessment of Internal Controls over the Revenue Cycle

The assessment of Bradmark's internal controls over its revenue cycle procedures were done through the analysis of the processes each department is undertaking.

For the Sales Department, it is but right that the clerk will seek the approval of the credit manager for customers with insufficient available credit. However, the credit manager should not only verbally authorize the clerk to change credit limits. More so, it is inappropriate for him to delegate the said task to the clerk as it violates the general control of authorization. Reconciliation of the documents - packing slip, shipping notice, and bill of lading - with the goods to be shipped must likewise be done for independent verification.

Several copies of these documents must be made to be filed for future reference and monitored by the departments responsible in the each of the operational processes. In conclusion, Bradmark needs to improve some of the internal controls over its revenue cycle procedures. Existence or Occurrence From Bradmark's data files on sales invoices, cash receipts and list of customers, the ACL software was used to compute and determine the Accounts Receivable balances of customers in the books. January 20, 2005 United City 920 4 h Street Bridgewater, New Jersey 8807 Dear Sir/Madam, In

connection with an examination of our financial statements by Ross & Specter Co. , Certified Public Accountants, 8th Avenue, Manhattan, New York (NY) 10014, we will appreciate it if you will indicate the correctness of the following information. Our records indicate that, at the close of business on December 31, 2004 the amount payable on your account was \$8, 627 Please sign the confirmation form in the space provided below if this amount agrees with your records.

If it does not agree, do not sign below but explain and sign on the reverse side. Please return this form directly to our accountants in the enclosed envelope. Very truly yours, Ross & Specter Co. Confirmation - Information is accurate: _____ Signature and date 2 | P a g e In

order to verify the existence or occurrence of what these accounts actually owed to Bradmark, confirmation letters were sent to certain customers. Customers with unpaid balances in the records received confirmation requests from Bradmark.

The figure above is an example of a positive confirmation letter that was sent to one of their clients, United City, asking for a verification of their balance amounting to \$8, 627. Similar positive confirmation letters were also sent to other customers with outstanding balances to the Company. Completeness In terms of verifying whether the sales figure represent those that actually occurred and were shipped during the period, the Sales Invoice and Shipping Log records were joined. However, to find out which items were not shipped, using the unmatched category was necessary. Presented below is the result of this audit test.

As observed, the sales last November 4, 2004 to Customer 65003 (University Electronics) was not in the record of shipped goods. This gap should be further investigated by verifying the delivery of the goods with the said customer. In addition to that, there were items that were shipped past the cut-off date (December 31, 2004). The ACL procedure used to determine this was the filter function. The filter " Ship_Date > `20041231`" was used and the results are displayed below. 3 | Page In total, there are ten records that should not be part of the Total Sales amount for the period.

These records amount to a total of \$29, 495. 70. After taking into account the results for these two tests, the should-be balance for the Total Sales of the period was computed to be \$5, 317, 470. 36. Valuation or Allocation The total Accounts Receivable balance in the records of \$4, 752, 257. 70 was verified by setting a filter of " Remit_Num = 0" and then getting the total amount due. By doing this, only those sales which do not yet have a remittance advice are part of the accounts receivable. The figure below is the outcome of this procedure. 4 | Page

However, if the difference between the total sales and the total cash received (for the period ending December 31, 2004) was computed, then the total Accounts Receivable balance would be \$4, 578, 008. 14. This indicates that the Accounts Receivable is misstated in the financial statements. Moreover, from the analyse tab and the function " Age", an aging of the Accounts Receivable was performed. The summary of this analysis can be seen in this figure: 5 | Page It should be noted that based on this test, the allowance for doubtful accounts should be adjusted to reflect the actual accounts, which can be considered as uncollectible, i. . those that are

already over 90 days. The balance would then be \$1, 945, 870. 20. 6 | Page Compared to the current estimation method of the Allowance for Doubtful Accounts of Bradmark, this method of aging the Accounts Receivable is more appropriate. This also ensures that the balance is reasonable and properly valued. Accuracy To test the accuracy of the recorded cash payments from customers, the Sales Invoice record was compared with the Cash Receipts record. These tables were joined and afterwards, the amounts due found in the Sales Invoice table was contrasted with those actually received in the Cash Receipts table.

The figure below shows the records that did not match and, in effect, constituted errors to the reported balances of the accounts receivable and cash receipts. There are a total of eight records that show inconsistencies within the records of the company. Nos. 12684, 12687 and 12814 were remittances that were recorded by the Cash Receipts clerk but were not found in the Sales Invoice records. These may be considered as a red flag to Bradmark. With these results, the management should verify if they have, in fact, received these payments as this may indicate theft within the Company.

Other records like remittance nos. 12657, 12663 and 12709 demonstrate probable human errors while recording, since these discrepancies were due to lack or excess of digits as shown below. Lastly, remittance nos. 12651 and 12697 reveal that the amounts due have not been paid in full. This constitutes receivables from the customers. There is a need, however, to verify this and include those with partial payments in the list of customers to

whom confirmation letters will be sent. 7 | Page Other Operational Concerns (Related to Revenue Procedures)

Moreover, to make sure that the credit policy is consistently applied and that no customer exceeded his/her assigned credit limit, the join function was utilized. After joining the tables Customer and Sales Invoice using the many-to-many category, the filter " Amount_Due > Credit_Limit" was subsequently set. The outcome of this test can be seen from the following figures: 8 | Page This shows that six customers (Customer Numbers 65003, 419449, 564291, 784547, 811002 and 925007) were given approval to purchase beyond their allowed credit limit.

Particularly noticeable are customers 65003 (university Electronics) and 925007 (Galaxy Company), who have several purchases that exceeded their allowable credit. An in-depth inquiry on this matter should be done to uncover the cause of these violations. EXPENDITURE CYLCE Assessment of Internal Controls over the Expenditure Cycle After assessing its practices, Bradmark's internal controls over its expenditure cycle appear to be inadequate. To rationalize this: ? Mr. James Walker has sole control over the determination of when to replenish the Company's inventory, by how much and to whom to buy.

This way of restocking seems to be unsystematic and subjective and by doing so, the Company is not that assured that purchases are made in an arms-length transaction. ? There may be gaps in the receiving report numbering system as the clerk must void receiving reports when errors are made during the data entry, thereby losing its significance as a control tool. ? Check and balance controls in place cannot be relied upon as there is

a lack of segregation of duties. Mr. Walker has means to override. To illustrate, since Mr.

Walker is the one encoding if the ordered products have been received in the warehouse and also the one making purchase orders, he can make a phony purchase order and indicate that it has already been received, even if no delivery has occurred. The accounts payable clerk would not detect that such was the case because her only verification tool she has is the RR Number that has been placed in the PO record, which, in the first place, was also encoded by Mr. Walker. Furthermore, it is to be noted that Mr.

Walker played a significant role when the system was being put into place and can therefore effectively administer the system. Completeness Furthermore, in order to verify that there are no unrecorded liabilities during 2004, the Purchase Order and Receiving Report files were joined. Then, the resulting table was joined with the Voucher's Payable file. To search for the items that were recorded, a filter is made to extract unmatched PO number in the three files. The result of this audit test is shown in the figures below:

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The results indicate that there are 21 incidences where a good was received (as recorded in the RR File) but no order was placed for it (based on the absence of the entry in the PO file). These received goods are also unrecorded in the Vouchers Payable file conceivably understating the Accounts Payable for the year. Moreover, the results also showed that there are 22 incidences where an order (as shown in Purchase Order file) was not received (as it cannot be found in the Receiving Report file) but was paid for by the Company (as indicated in the Vouchers Payable file).

The unusual thing about these incidences was that these transactions were made with the same vendor (Vendor Number 11663). It is possible that all those purchase orders were fabricated and vendor number 11663 is a fictitious supplier. 11 | Page The summary of the actions taken is presented in this figure: Valuation or Allocation The Inventory Account is currently valued at \$ 1, 108, 194. 94 which was calculated as the lower between lump sum cost and the market value of the inventory. This was verified by using the Total Fields function.

The results are shown in the figure: 12 | Page However, such computation does not value the inventory items individually at their lower of cost or net realisable value in accordance with the accounting reporting standards. Thus, inventory is currently misstated in the financial statements. Thus, to correct the inventory balance, it is necessary to use the filter and total function. Inventory items whose costs are lower than their market value were first added. This resulted to a total of 140 items having a should-be recorded cost of \$941, 109. 79.

Meanwhile, 11 inventory items that should be valued at their market value have a total of \$129, 986. 27. Adding these two figures together, the inventory balance should be at \$ 1, 071, 096. 06. 13 | Page Accuracy In asserting the accuracy of payments to vendors, the Check Register and the Voucher Payable data were joined. This gives us 17 entries that show zero value. Filter and total functions were used to determine if there are payments made which are greater than what was actually owed by the Company. As shown in the figures below, the total disbursed cash is greater than the sum 14 | Page f the full amount. The full amount is the basis for

the disbursing of cash; however, five records appear to have exceeded this limit. One shows that there was a check issued to settle a payable that has a negative amount. In addition, three checks that have negative values were issued to pay three negatively recorded payables. Further examination of 15 | P a g e these check payments must be made in order to ascertain if these discrepancies have resulted from mere human errors or were intentionally made to cover a fraudulent act.

By searching for duplicates, another anomaly was uncovered. One out of the 25 records shows that two consecutively numbered checks were issued to pay for one invoice. The management must investigate on this incident as this involves an explicit misuse of financial resources. 16 | P a g e 17 | P a g e Operational Risk This test focuses on the operational efficiency of the company. To ensure that the discount for their purchases are taken advantage of, the payment due date was compared with the actual payment date.

This was done by first joining the Check Register and Vouchers Payable files using the matched category. Subsequently, those checks that do not have a check number were filtered using “ Chk_Num ”. This is to make sure that only those checks that were actually issued are compared to the accounts paid. The resulting data is again filtered using “ Pay_Date > Due_Date” to arrive at those purchases whose actual payment data is beyond their due date. The following tables show the files after the employing the said filter: 18 | P a g e 19 | P a g e 20 | P a g e