

Accounts receivable

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The objective in the audit of the sales and collection cycle is to evaluate whether the account balance affected by the cycle are fairly presented in accordance with accounting standards. There are five classes of transactions in the sales and collection cycle. ; Sales Cash Receipts Sales returns and allowances Write-off of unconvertible accounts Estimate of bad debt expense (Arenas, 2012, p, 442) The Key control activities are proper segregation of duties, authorization, documentation and recording, preparation of monthly statements and internal reification procedures.

With the exception of cash sales, every transaction and amount is ultimately included in one of two balance sheet accounts, accounts receivable or allowance for unconvertible accounts. There are eight business functions for the sales and collection cycle. The first four processes are for recording sales, while every other class of transactions includes only one business function. The four sales transaction functions are necessary for getting the goods into the hands of customers, correctly billing them, and reflecting the information in the accounting records.

The remaining four functions involve the collection and recording of cash, sales returns and allowances, write-off of unconvertible accounts, and providing for bad debt expense. Classes of Transactions Business Functions
Sales Processing customer orders Granting credit Shipping goods Billing customers and recording sales Cash Receipts Processing and recording cash receipts Write-off of unconvertible accounts Writing off unconvertible accounts receivable Bad debt expense Providing for bad debts (Arenas, 2012, p. 43) The direction of testing for sales is as follows: Customer orders; Shipping Documents; Duplicate Sales invoices; Sales Journals; and General
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Ledger. (Arenas, 2012, p. 455) Tests of Controls For each control, there should be at least one test of control, but there can be more than one. We will gather evidence for internal controls by: Documentation; Observation; Inquiries of the client; and Re-performance.

The tests create audit evidence that support the common assertions for the business cycle: Coexistence and Occurrence: to ensure that sales are recorded for shipments to genuine customers; 0 Completeness; All existing sales transaction are recorded; Accuracy: to ensure that amounts of sales for quantities shipped is recorded and billed accurately, is summarized appropriately and is traceable to accounts receivables master file; 0 Presentation and disclosure/ Classification: Sales transaction are appropriately classified; and 0 Cut-off: The sales are recorded in the accounting period in which these were incurred.

We propose the following tests of controls for Sales and Collections: 0 Examination of purchase orders from customers for evidence of customer approval; Elongation of sales invoice for supporting documentation; 0 Tracing Sale invoice figures to bill of lading and customer order; 0 Inspection of batch control file for initials of data control clerk authenticating sign off; 0 Follow up on the sequential pattern of Shipping documents; 0 Examination of file for batch totals and initials of data control clerk; 0 Inspect the internal verification documentation package; and Re-perform reconciliation of customer debtors master file totals to general ledger balance. Substantive Tests of Transactions For each transaction, there should be at least one substantive test, but there can be more than one. We will gather evidence for internal controls by: Documentation; Inquiries of the client; Re-

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performance; and Recalculation. The tests create audit Occurrence, Completeness, Accuracy, Presentation and disclosure/ Classification, and Cutoff.

We propose the following substantive tests of transactions for Sales and Collections:

- 0 Ensure that the sales invoices are serially numbered;
- 0 Review master file and sales Journal for unusual transactions and abnormally high or low amounts;
- 0 Trace the sample of selected sales Journal entries to its supporting documents eke , bill of lading and sales order inter alai , also check duplicate sales invoice issued (if any);
- 0 Trace information as per shipping documents to the sales Journal;
- 0 Trace sales journal ledger entries to sale invoices on sample basis;
- 0 Verify amounts on the sale invoice by re-computing price and extension on the same;
- 0 Trace amounts of sales from Sale invoices to customer orders, sale order and shipping documents like bill of lading etc. ; and
- 0 Trace selected invoices from Journal to the Trade debtors' master file and test amount, date, and invoice number for valuation and cut off.

Analytical Procedures Because analytical procedures are substantive tests, they reduce the extent to which the auditor needs to perform detailed tests of balances, if the analytical procedure results are favorable. Our audit team performs analytical procedures for the entire sales and collection cycle, not just accounts receivable. When we perform analytical procedures for sales, we obtain evidence about both sales and accounts receivable. We propose the following analytical procedures for Sales and Collections:

Procedure	Possible Misstatement
Compare gross margin percentage with	

previous Overstatement or understatement of sales years (by product line).

And accounts receivable.

Compare sales by month (by product line) Overstatement or understatement of sales over time. Compare sales returns and allowances as a

Overstatement or understatement of sales percentage of gross sales with previous years returns and allowances and accounts (by product line).

Receivable. Compare individual customer balances over Misstatements in accounts receivable and stated amount with previous years. Related income statement accounts. Eave gross sales with previous years. Compare number of days that accounts not been provided for. Receivable are outstanding with previous years allowance for unconvertible accounts and And related

turnover of accounts receivable. Ad debt expense; also may indicate

fictitious accounts receivable. Compare aging categories as a percentage of

Overstatement or understatement of accounts receivable with previous

years. Allowance for unconvertible accounts and bad debt expense. Compare

allowance for unconvertible accounts Overstatement or understatement of

as a percentage of accounts receivable with allowance for unconvertible

accounts and previous years. Compare write-off of unconvertible accounts as

Overstatement or understatement of a percentage of total accounts

receivable with allowance for unconvertible accounts (Arenas, 2012, p. 524)

Payroll and Personnel Cycle The personnel and payroll cycle of Apollo Shoes

Inc. Just be audited with the inclusion of tests of controls, substantive tests of

transactions, and analytical procedures. Tests of account balance details are

not required considering the balance sheet accounts regarding payroll are

not of a material nature (Arenas, Elder, & Basely, 2012). Transactions within

the payroll cycle have the potential for materiality and are therefore far more important when designing the audit program. Test of Controls Internal control over the payroll and personnel cycle is significant to the accuracy of each payroll transaction. In order to properly test controls regarding each of the audit objectives listed above the design for test of controls includes several review and examination factors, as well as discussion with employees. Payroll is paid and recorded accurately Examine time records (Arenas, et al. 2012). A. . Time clock is used . Supervisor approval Time records are submitted to payroll department iii. B. Review personnel and payroll policies . Hiring, termination, and pay rate . Examine employee files for supervisor authorization Examine payroll change documents (Lowers & Reynolds, 2007). It. 2. Payroll employee records Review I. Discuss register and " take home sheet" development with payroll clerks it. Register copies with treasurer and accounts payable d. Examine treasurer payroll files I. Examine access to checks it. Review payroll register copies for completion Discuss verification of accurate recording prior to check signing e. Aster file I. Review accounts it. Examine internal verification 1. Verification of payroll register 2. Verification in accounts payable Substantive Test of Transactions Examine payroll Tests of transactions may happen during the testing or internal control or may happen after the internal control has been tested depending on the most efficient way to conduct the audit program. Tests of transactions for the personnel and payroll cycle are of high importance because of the volume of transactions wrought the accounting period. Transaction testing allows for identification of irregularities and potential misstatements in payroll. Apollo Shoes Inc. Sees an internal form known as a " take home sheet" that indicate gross pay, each deduction, net pay, and

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year to date totals for each employee (Lowers & Reynolds, 2007).

Examination and comparison of this form, the corresponding payroll register, and the corresponding canceled checks will make up a large portion of the tests of transactions. 1. Compare canceled checks with payroll register 2. Compare canceled checks with take home sheets . Compare payroll change documents to payroll employee files 4. Recalculate register entries and take home sheets 5. Recalculate hours worked from time records (Arenas, et al. , 2012) 6. Compare payroll register and take home sheets with vouchers paid 7. Examine employee records for all unclaimed checks 8. Compare " paid" register and vouchers with master payroll file 9.

Examine time cards and time clock Analytical procedures as a part of the audit program allow for the relatively quick comparison of specific account details that may lead to identifying possible statements that require additional detailed testing (Arenas, et al. , 2012). Analytical procedures involve the use of current and historical information to make comparisons. If the comparison result differs from the expected then additional testing will be necessary. Expected increase in salary expense is reasonable (Lowers & Reynolds, 2007). Compare total payroll expense to previous years accounting for pay and volume increases to establish whether or not there are misstatements in payroll expenses (Arenas, et al. , 2012).

Compare sales to last year and review these in order to determine if the changes in roll and sales are relative from one year to the next. Increased sales with a decrease in payroll for example may indicate a misstatement. Compare payroll tax expense as a percentage of salaries and wages to previous years to determine potential misstatements in payroll tax expense

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(Arenas, et al. , 2012). Review executive salaries and determine if they correspond to the salaries authorized in the board minutes (Lowers & Reynolds, 2007). Acquisition and Payment Cycle With the acquisition and payment cycle, there are three main transactions in this yes, which entail: 0 Attainment of merchandises and amenities, 0 Cash distribution, and purchase returns, and 0 Allowances and buying reductions.

The first assessment goal is to check for existence by confirming that acquisition demand, purchase order, receiving report, payment transactions and merchant statements are attached to the coupon. It needs to be confirmed that the level of credit authorization is accurate, entrance of acquisitions are from approved merchants only, and that each transactions are appropriate. Then the, papers are studied for existence, merchants are certified, and payable records are reviewed for uncommon accounts. The fixed assets that are attained are observed too. The next audit goal is to check control for extensiveness by testing that the transactions are renumbered and in sequence order. Transactions are outlined to coupons and Journals.

Additionally is to assess controls for correctness by validating that the calculations are accurate and are associated to summary reports. The Journals and reports are paralleled for correctness. The goal of the assessment is to check controls for arrangement by validating account grouping and inspecting the hart of accounts and processes by linking the grouping through the chart of accounts as they mention to the merchant's statement. And witnessing unrecorded merchant statements and transactions. These are confirmed on the inside. The dates of acquiring these <https://assignbuster.com/accounts-receivable/>

reports and statement are then paralleled with dates of acquirement and payment transactions. The assessment platform is intended to let the business to comprehend how the auditors will be testing internal controls.

This sequence of exams and methodical processes are intended to demonstrate the worth and rationality of the sales and election cycle, payroll and personnel cycle, and acquisition and payment cycle. The exams center on existence, wholeness, and correctness. Once the exams are done, we will have a better indication on how to continue with the remainder of the assessment. It will help to regulate how long the assessment might be and what the price could be.