

Accounts Receivable, Notes Receivable, and Revenue

Chapter 11

Slide 11- 1

Copyright © 2003 by Coby Harmon, All rights reserved.

Various Receivables

- Accounts or trade receivables
- Notes receivable
 - ♦ loans to officers, employees, subsidiaries
- Tax refunds
- Advances to suppliers

Slide 11- 2

Copyright © 2003 by Coby Harmon, All rights reserved.

Internal Control Over the Revenue Cycle

- Controlling customers' orders
- Credit approval
- Issuing merchandise
- Shipping
- Billing
- Adjustments to sales and receivables

Slide 11- 3

Copyright © 2003 by Coby Harmon, All rights reserved.

Revenue Cycle Documents

- Customer purchase order
- Sales order
- Bill of lading
- Invoice
- Control listing
- Credit memo

Slide 11- 4

Copyright © 2003 by Coby Harmon, All rights reserved.

Sale on Account

Balance Sheet

Assets: 2003

Liabilities:

Equity:

Income Statement

Revenues: 2003

Expenses:

Net (income) loss

Made a sale for \$30,000 on account. Estimated \$1,000 would not be collectible.

Slide 11- 5

Copyright © 2003 by Coby Harmon, All rights reserved.

Auditors' Objectives

- A. Consider inherent risks, including fraud.

Slide 11- 6

Copyright © 2003 by Coby Harmon, All rights reserved.

Auditors' Objectives

B. Consider internal control over receivables and revenue.

1. Obtain an understanding of internal control.
2. Assess control risk and design additional tests of controls and substantive tests.
3. Perform additional tests of controls.
 - a. Examine significant aspects of a sample of sales transactions.
 - b. Compare a sample of shipping documents to related sales invoices.
 - c. Review the use and authorization of credit memoranda.
 - d. Reconcile cash register tapes and sales tickets with sales journals.
 - e. Test computer application controls.
4. Reassess control risk and modify substantive tests.

Slide 11- 7

Copyright © 2003 by Coby Harmon. All rights reserved.

Auditors' Objectives

C. Perform substantive tests of receivables and revenue.

1. Obtain an ARTB and reconcile to ledgers.
2. Confirm receivables with debtors.
3. Review the year-end cutoff of sales transactions.
4. Perform analytical procedures for A/R and revenue.
5. Review significant year-end sales contracts for unusual terms.
6. Evaluate the propriety of the accounting methods for receivables and revenue.
7. Evaluate accounting estimates related to revenue recognition.
8. Determine adequacy of allowance for uncollectible accounts.
9. Ascertain whether any receivables have been pledged.
10. Investigate any transactions with related parties.
11. Evaluate the business purpose of significant and unusual sales transactions.
12. Evaluate presentation / disclosure of receivables and revenue.

Slide 11- 9

Copyright © 2003 by Coby Harmon. All rights reserved.