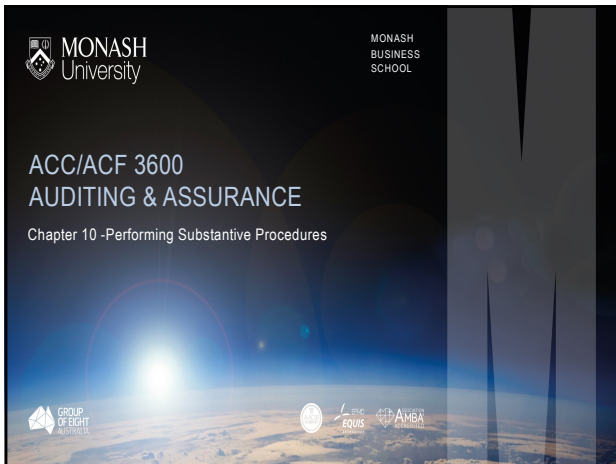




1

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- 10.1 explain the relationship between the **risk of material misstatement** for a significant account and the **extent and timing of substantive procedures**
- 10.2 design and explain how to execute substantive procedures to address audit risk related to **cash**
- 10.3 design and explain how to execute substantive procedures to address audit risk related to trade **receivables**
- 10.4 design and explain how to execute substantive procedures to address audit risk related to **inventory**
- 10.5 design and explain how to execute substantive procedures to address audit risk related to **property, plant and equipment**
- 10.6 design and explain how to execute substantive procedures to address audit risk related to **payables**
- 10.7 explain how substantive testing is used for **other balance sheet accounts**
- 10.8 explain how to **assess the results** of substantive procedures to determine whether additional substantive tests are necessary.

Adapted from Moroney, Robyn, et al. (2017), *Auditing: A practical approach* (3rd ed.), Wiley

2

Substantive Tests – Cash

3



SUBSTANTIVE TESTING - CASH

TWO MOST IMPORTANT ASSERTIONS:

EXISTENCE

- Usually addressed by **bank confirmation** (AGS 1002).

COMPLETENESS

- Test **bank reconciliation** and **cut-off** of cash transactions
- Verify **reconciling items** to next period bank statement

Adapted from Moroney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley

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SUBSTANTIVE TESTING -- CASH

- Other assertions may also be important:
 - Rights and obligations:**
 - Assertion also significant where clients may **pledge assets**
 - Pledging restricts client's rights over cash.
 - Valuation and allocation:**
 - Usually only an issue when client has significant **foreign currency bank accounts**.
- Testing cash account balances **always done at some level**, additional procedures required as risk assessment increases
- Tests include **bank confirmations, bank reconciliation re-performance, analytical procedures**

Adapted from Moroney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley

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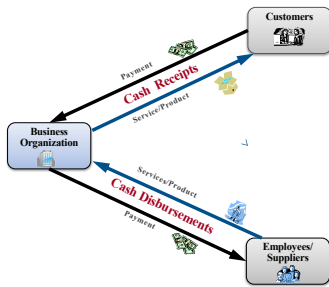
PROCESSES IMPACTING ON CASH

- Auditor assesses evidence obtained from interim testing on significant transactions, control testing.
- When CR low**, unlikely to do additional testing on cash receipts and payments, focus on balance.
- If CR not low**, substantive tests of **receipts and payments** may be required.

Adapted from Moroney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley

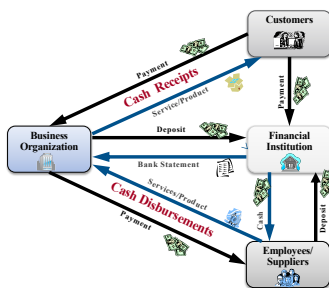
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Operating Cash Flows



7

Operating Cash Flows



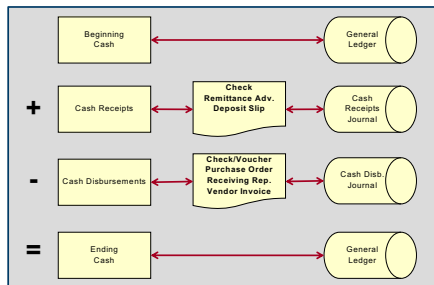
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Tests of Balances and Transactions – Cash

Cash	
Beginning Balance	
Cash Receipts	Cash Disbursements
Ending Balance	

9

Tests of Balances and Transactions -- Cash



10

Cash – Substantive Tests

Balance Per Bank			\$10,100
Deposits in Transit	\$2,000		
Outstanding Checks	(\$6,500)		
Bank Errors	--		
Adjusted Balance			\$5,600
Balance Per G/L			\$6,116
Collections by Bank	\$500		
Interest Paid by Bank	\$4		
NSF Checks	(\$1,000)		
Bank Charges	(\$20)		
Errors	--		
Adjusted Balance			\$5,600

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Substantive Tests – Accounts Receivable

12

SUBSTANTIVE TESTING – RECEIVABLES

TWO MOST IMPORTANT ASSERTIONS:

EXISTENCE

- Usually addressed by **debtors' confirmation** (ASA 505; ISA 505)
 - **Positive confirmation**: auditor requests reply in all circumstances
 - **Negative confirmation**: auditor requests reply only if debtor disagrees with balance shown
 - Confirmations **do not provide assurance about valuation** because they do not address recoverability

VALUATION & ALLOCATION

- Use **subsequent receipts test**
- **Analytical procedures** based on **ageing**

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – RECEIVABLES

- Other assertions may also be important:

□ Classification

- Can also be important because of **disclosures**, such as **related parties** and **financial instruments**.

□ Rights and Obligations

- Can also be important because of **restrictions on trade terms**.

□ Completeness

- Can be addressed through **cut-off testing**.

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – RECEIVABLES

There are three important transactions that impact on the balance of trade receivables:

1. **Sales**
2. **Sales Returns and Allowances**
3. **Cash receipts**

Auditor would only consider these procedures if unable to test and rely on controls or it is deemed more efficient to test balance substantively

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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Revenue and Cash Receipts



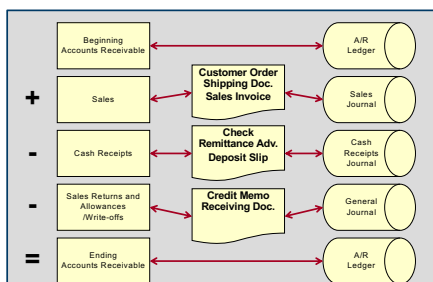
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Test of Balances and Transactions – Accounts Receivable

Accounts Receivable	
Beginning Balance	
Sales	Cash Receipts Sales Returns and Allowances Write-offs
Ending Balance	

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Tests of Balances and Transactions – Accounts Receivable



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Testing – Allowance for Doubtful Accounts

Allowance for Doubtful Accounts	
Write-offs	Beginning Balance
	Bad Debt Expense
	Recoveries
	Ending Balance

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Substantive Tests – Inventory

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SUBSTANTIVE TESTING – INVENTORY

TWO MOST IMPORTANT ASSERTIONS:

- **EXISTENCE**
 - Usually addressed by testing client's **annual or cyclical stock take** (ASA 501; ISA 501)
 - ❖ Auditor tests client's verification of physical inventory with **records**, and auditor must **sight inventory**
 - ❖ Lower CR, less likely stocktake is performed only annually
- **VALUATION & ALLOCATION**
 - **Lower of cost and NRV** - AASB 102 (IAS 2)
 - **Sighting inventory at stock take** allows auditor to assess slow-moving, damaged, obsolete, impaired, excess stock which should be written down
 - Typical techniques:
 - ❖ Vouching to **invoices** to verify **initial cost**
 - ❖ Vouching to **sales details** to verify **cost of sales**
 - ❖ Test **provision for impairment** calculations

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SUBSTANTIVE TESTING – INVENTORY

- Other assertions may also be important:
 - **Completeness**
 - Not usually a major issue
 - Risk of understatement can be issue where **goods sold on consignment**.
 - **Rights and obligations**
 - Relevant for some clients due to **consignment sales, complex purchasing contracts**.
 - **Classification**
 - Usually addressed by **testing stock listing, allowing verification of disclosures**

Adapted from Maroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – INVENTORY

- There are three important types of transactions that impact on the inventory balance:
 1. **Purchasing**
 2. **Cash payments**
 3. **Inventory processes**
- Usually, auditor relies on **control testing** of these transactions to confirm low CR
- If **CR not low**, substantive tests required for the transactions

Adapted from Maroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – INVENTORY

- Testing inventory account balances required by ASA 501; ISA 501, para 4
- If inventory is material to the financial report, auditor must attend the **physical inventory counting**, unless impracticable, to:
 - a) **Evaluate managements' instructions and procedures**
 - b) **Observe performance of count**
 - c) **Inspect inventory**
 - d) **Perform test counts**
- Auditor is required to test entity's **final inventory records** to determine if they accurately reflect actual inventory count.

Adapted from Maroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – INVENTORY

AUDITOR WILL ALSO USUALLY:

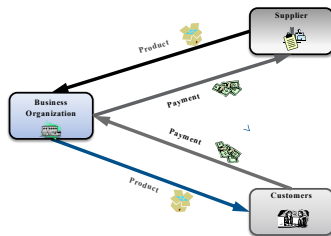
- Perform analytical procedures
- Test valuation of inventory
- Test client procedures to assess inventory impairments due to damage
- Test client's costing methods
- Use procedures to test valuation of inventory at remote locations (e.g. use another auditor)

Adapted from Maroney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley

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Purchase and Sale of Inventory



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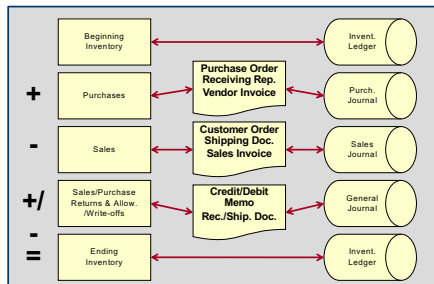
Inventory – Substantive Tests

<https://www.growthpath.com.au/Business-Growth/perpetual-vs-periodic-inventory.html>

Perpetual Inventory		Periodic Purchases	
Beginning Balance			
Purchases	Sales	Purchases	Purchase Returns & Allowances
Sales Returns	Impairments / Write-offs		
Ending Balance		Ending Balance	

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Tests of Balances and Transactions – Inventory



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Inventory – Substantive Tests

System

- Perpetual
- Periodic

Observation

- Client Process
- Inventory Movement
- Test Counts

Price Tests

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Inventory Count Example

Tag Number	Item	Quantity	Price	Extended Amount
001	Penny	5	\$0.01	\$ 0.05
002	Nickel	8	\$0.05	\$ 0.40
003	Dime	2	\$0.10	\$ 0.20
004	Quarter	4	\$0.25	\$ 1.00
005	Half Dollars	1	\$0.50	\$ 0.50
006	One Dollar	1	\$1.00	\$ 1.00
008	Five Dollar	1	\$5.00	\$ 5.00
010	Ten Dollar	1	\$10.00	\$ 10.00
Total				\$ 18.15

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Substantive Tests – Fixed Assets

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SUBSTANTIVE TESTING – PPE

TWO MOST IMPORTANT ASSERTIONS:

EXISTENCE

- Verify items recorded in client's **fixed asset register**
- **Physically sight assets** listed in first audit and periodically
- Focus on **additions and disposals** in later years

VALUATION & ALLOCATION

- Evidence about condition gathered when **sighting physical assets**
- Consider **cost and fair value**, and asset **impairment**
- **Change in client operations** could impact fair values
- Vouch **initial cost** to **invoices, contracts**
- Vouch **disposals** to **sales contracts, receipts**
- Test **depreciation** through **reasonableness testing** of charge based on **useful lives**

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – PPE

- Other assertions may also be important:

❑ Completeness

- Not usually major issue

❑ Rights and obligations

- Initial test then periodically.
- Registered titles, registration papers.
- Consider **leased items**.

❑ Classification

- Generally test fixed asset register.

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – PPE

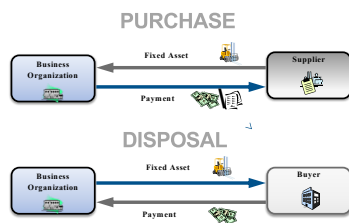
- There are three important types of transactions that impact on the balance of PPE:
 - ❑ Cash receipts
 - ❑ cash payments
 - ❑ purchasing
 - ❑ Substantive testing when CR high.

Adapted from Maroney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley

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Business Activities -- Fixed Asset

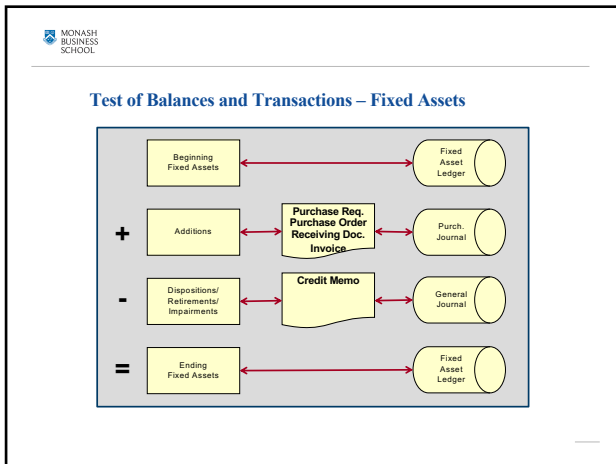


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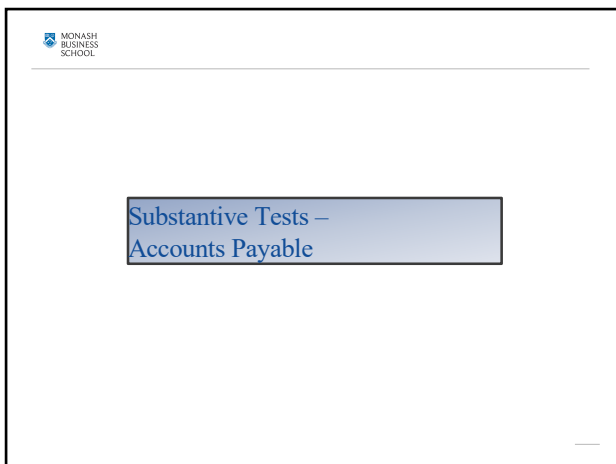
Tests of Balances and Transactions – Fixed Assets

Fixed Assets	
Beginning Balance	
Additions	Disposition/Retirement Impairments/Write-offs
Ending Balance	

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MONASH BUSINESS SCHOOL

SUBSTANTIVE TESTING - PAYABLES

- Two most important assertions are **COMPLETENESS** and **VALUATION & ALLOCATION**
- FOR BOTH ASSERTIONS:
 - Major risk is **understatement**
 - Use **subsequent payments testing**
 - Vouch **payments after balance date** to **invoices** to verify invoices dated prior to year-end are included in payables
 - Cut-off testing**
 - Select sample of **purchases either side of year-end** and verify that each included or excluded from payables based on **invoice date**

Adapted from Monney, Robyn, et al. (2017). Auditing: A practical approach (3rd ed.). Wiley.

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SUBSTANTIVE TESTING - PAYABLES

- Other assertions may also be important:
 - ❑ Existence and Rights and Obligations
 - Not usually important because they relate more to risk of overstatement.
 - ❑ Classification
 - Important if there are **related party transactions**, and **specific finance types** that require disclosures.

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING - PAYABLES

- Accruals are treated in same way as payables, search for unrecorded amounts through **subsequent payments testing**.
- There are two important types of processes that impact on the balance of payables:
 - ❑ **Cash payments**
 - ❑ **Purchasing**
 - ❑ Substantive testing when CR high.

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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Purchases and Cash Payment Cycle



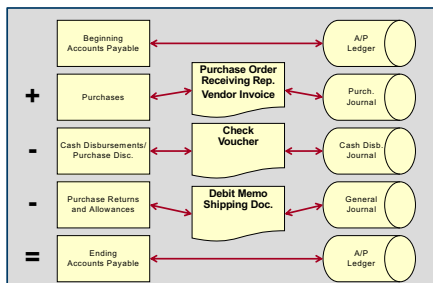
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Test of Balances and Transactions – Accounts Payable

Accounts Payable	
	Beginning Balance
Cash Disbursements	Purchases
Purchase Discounts	
Purchase Returns/Allowances	
	Ending Balance

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Tests of Balances and Transactions – Accounts Payable



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ASSESSING THE RESULTS OF SUBSTANTIVE PROCEDURES

Auditor's objective is to identify and quantify any errors:

1. Understand **why** error occurred
2. Assess **need for additional testing**
3. Make **final estimate of misstatement**, assess **materiality** and **recommend adjustments**

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RELATIONSHIP BETWEEN RISK AND SUBSTANTIVE PROCEDURES

EXTENT OF SUBSTANTIVE PROCEDURES

- Determined by **risk assessment**
- Trivial or immaterial accounts are either ignored or subjected to analytical procedures only
- **Audit risk model** used to make a risk assessment on **each significant account or disclosure**
- **High IR, CR: do not rely on and test controls**, use significant amount of substantive testing to reduce DR to acceptable level
- **Low IR, CR: testing controls** shows them to be effective, limited substantive testing required

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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RELATIONSHIP BETWEEN RISK AND SUBSTANTIVE PROCEDURES

TIMING OF SUBSTANTIVE PROCEDURES

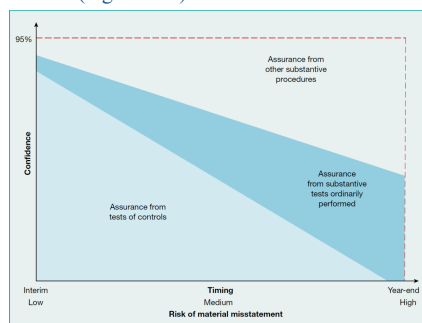
- Also determined by **risk assessment**
- **Lower DR**, more work done at **year-end**
- Audit firm must also consider **availability of resources** to conduct procedures around year-end
- Use techniques to influence schedule:
 - **Review events prior to year-end**, e.g. acquisitions
 - **Review activity in period to date**, e.g. review interim ageing of debtors then update at year-end
 - **Perform general audit procedures prior to year-end**, e.g. read board minutes
 - **Review provisions prior to year-end**, e.g. understand estimation processes used by management
 - **Leverage off internal audit** (ASA 610; ISA 610)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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RELATIONSHIP BETWEEN RISK AND SUBSTANTIVE PROCEDURES (Figure 10.2)



Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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RELATIONSHIP BETWEEN RISK AND SUBSTANTIVE PROCEDURES

OTHER MATTERS TO CONSIDER IN DESIGNING SUBSTANTIVE PROCEDURES

- Ensure procedures respond to **specific risk** faced by client from **both IR and CR factors**
- Different clients may have same overall level of risk but **risk caused by different factors** – procedures would be also different
- **Take credit for work already done** – early work in audit to assess risk also provides evidence.
- **Set appropriate testing thresholds** – what the auditor considers important for an audit will vary depending on the overall risk assessment.

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – CASH (Table 10.1)

OBJECTIVE	ASSERTION
All cash on the balance sheet is held by the entity or by others (e.g. a bank) for the entity	EXISTENCE (E)
All cash owned by the entity at year-end is included in the balance sheet	COMPLETENESS (C)
Cash is stated at its realisable value	VALUATION AND ALLOCATION (V&A)
The entity owns, or has legal rights to, all the cash on the balance sheet at year-end. All cash is free from restrictions on use, liens, or other security interests, or if not, such restrictions, liens or other security interests are identified	RIGHTS AND OBLIGATIONS (R&O)
Cash is properly classified, described and disclosed in the financial report, including in the notes, including disclosures of any of the abovementioned restrictions on use, etc., plus disclosures are made as required by application of an appropriate accounting framework (e.g. International Financial Reporting Standards).	CLASSIFICATION (CI), CLASSIFICATION AND UNDERSTANDABILITY (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – RECEIVABLES (Table 10.4)

OBJECTIVE	ASSERTION
All receivables on the balance sheet are real claims of the entity.	EXISTENCE (E)
All real claims of the entity for amounts receivable are included on the balance sheet.	COMPLETENESS (C)
Receivables are carried at their net realisable (collectable) value (i.e. the gross receivables are properly stated with appropriate allowances provided for uncollectable accounts, discounts, returns, warranties and similar items).	VALUATION AND ALLOCATION (V&A)
The entity owns, or has legal right to, all the receivables on the balance sheet at year-end. All receivables are free from liens, pledges or other security interests or, if not, such liens, pledges or other security interests are identified.	RIGHTS AND OBLIGATIONS (R&O)
Receivables are properly classified, described and disclosed in the financial report, including the notes, in conformity with prescribed accounting principles (IFRSs).	CLASSIFICATION (CI), CLASSIFICATION AND UNDERSTANDABILITY (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – INVENTORY (Table 10.7)

OBJECTIVE	ASSERTION
All inventory on the inventory listing is included in the financial report.	EXISTENCE (E)
All inventory is owned by the entity at year-end and are included on the balance sheet.	COMPLETENESS (C)
Inventory is carried at the lower of cost or market value. The costs and market determinations are appropriate, including adequate provisions for excess, slow-moving, obsolete and damaged goods, and for losses on purchase and sale commitments.	VALUATION AND ALLOCATION (V&A)
The entity owns, or has legal right to, all the inventory on the balance sheet. All inventory is free of liens, pledges and other security interests or, if not, such liens, pledges or other security interests are identified.	RIGHTS AND OBLIGATIONS (R&O)
Inventory is properly classified, described and disclosed in the financial report, including the notes, in conformity with prescribed accounting principles (IFRSs).	CLASSIFICATION (CI), CLASSIFICATION AND UNDERSTANDABILITY (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley.

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SUBSTANTIVE TESTING – PPE (Table 10.10)

OBJECTIVE	ASSERTION
All PPE on the balance sheet (including assets leased under finance leases) are held by the entity or by others for the entity.	EXISTENCE (E)
All PPE owned or leased under finance leases by the entity at year-end are included on the balance sheet.	COMPLETENESS (C)
PPE are carried at the appropriate amount (taking into account accumulated depreciation, amortisation or impairment). The cost of the plant and equipment is allocated to the appropriate accounting periods in a systematic and rational manner. The written down value of the PPE is expected to be recoverable through future use. PPE assets held for disposal are carried at the appropriate value.	VALUATION AND ALLOCATION (V&A)
The entity owns, or has legal right to, all the PPE on the balance sheet at year-end. All PPE assets are free from liens, pledges, security interests and restrictions or, if not, such liens, pledges, security interests and restrictions are identified and disclosed (if necessary).	RIGHTS AND OBLIGATIONS (R&O)
PPE and related accounts are properly classified, described and disclosed in the financial report, including the notes.	CLASSIFICATION (CI), CLASSIFICATION AND UNDERSTANDABILITY (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley.

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SUBSTANTIVE TESTING – PAYABLES (Table 10.13)

OBJECTIVE	ASSERTION
All accounts payable on the balance sheet are real debts payable to suppliers or other creditors of the entity for goods received or services performed.	EXISTENCE (E)
All accounts payable owed by the entity at year-end are included on the balance sheet.	COMPLETENESS (C)
Accounts payable are stated at the amounts owed at year-end.	VALUATION AND ALLOCATION (V&A)
The accounts payable on the balance sheet represent obligations of the entity at year-end. The accounts payable are not secured by liens on assets, security interests or other collateral unless otherwise indicated.	RIGHTS AND OBLIGATIONS (R&O)
Accounts payable are properly classified, described and disclosed in the financial report, including the notes.	CLASSIFICATION (CI), CLASSIFICATION AND UNDERSTANDABILITY (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley.

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PROCESSES IMPACTING ON CASH (Table 10.2)

CASH RECEIPTS PROCESS	CASH RECEIPTS PROCESS
Perform a proof of cash by reconciling activity per the client records to activity per the bank. Also correlate these transactions to the activity in the sales and trade receivables ledgers. This procedure is limited to less complex engagements that have a limited number of transactions. (C, A)	Test the accounting classifications of cash receipts. (C, V&A)
Compare remittance advices or lists of cash receipts with entries in the cash receipts ledger as to date, remitter, amount and account classification. (C, C)	Test the mathematical accuracy of the cash receipts ledger. (A)
Compare the details of duplicate deposit slips with the entries in the cash receipts ledger. Investigate abnormal delays in depositing cash receipts. (C)	Test the postings (processing) of the totals in the cash receipts ledger to the general ledger and other subsidiary ledgers. (C)
Test invoices and other original records of cash sales transactions to recorded cash sales, and recorded cash sales to supporting documents. (C)	Test the authorisation of credits, discounts and allowances in the cash receipts ledger. (O, E)
Test the recording of miscellaneous receipts (i.e. receipts not usually recorded in trade receivables, such as scrap or royalties); consider whether the recorded amounts are reasonable. (A)	Test the posting of individual cash receipts from the cash receipts ledger and supporting documents to the trade receivables sub-ledger. (C, C)
Compare entries in the cash receipts ledger (e.g. date, remitter, amount and account classification) with the remittance advices, lists of cash receipts, bank deposit slips and bank statements. (O)	

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – CASH (Table 10.3)

EXAMPLE TESTS ALWAYS PERFORMED

Confirm cash held by others (e.g. bank balances and/or overdrafts) and cash on hand, if significant. (E, R&O)

Examine the client's bank reconciliations. When appropriate (e.g. to determine whether receipts or payments are recorded on a timely basis, or to verify the appropriateness of reconciling items) obtain cut-off bank statements either side of the year-end. (C, V&A)

Test cut-off of cash receipts, cash payments and transfers as at year-end. (C, V&A)

EXAMPLE ANALYTICAL PROCEDURES

Compare the listing of cash accounts with the prior period's and investigate any unexpected changes (e.g. credit balances, unusually large balances, new accounts, closed accounts) or the absence of expected changes. (E, C, V&A, C)

Review interest received and/or paid in relation to the average cash balances and/or bank overdrafts. (Occurrence and accuracy of interest income in the income statement)

EXAMPLE OTHER GENERAL PROCEDURES

Review the cash accounts in the general ledger for unusual items. (C, V&A)

Review bank confirmations, minutes of meetings, loan agreements and other documents for evidence of restrictions on the use of cash or liens on cash. (C&U)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – RECEIVABLES (Table 10.5)

SALES PROCESS	SALES RETURNS AND ALLOWANCES (CREDIT MEMOS) PROCESS	CASH RECEIPTS PROCESS
Account for the numerical sequence of sales invoices, sales orders and shipping documents during a specified period. Reconcile billings with shipping documents for substantial portion of the period. (C, CO)	Trace credit memos and supporting documents to the sales returns and allowances transaction file as to dates, customers, products, quantities prices and amounts. (O)	Trace remittance advices or lists of cash receipts to the entries in the cash receipts transaction file as to the date, remitter, amount and account classification. (C)
Trace the records of products ordered and shipped to the sales records; agree dates, customers, products, quantities, prices and amounts. (O)	Account for the numerical sequence of credit memos during a specified period. (C)	Trace the details of duplicate deposit slips to the entries in the cash receipts transaction file. Investigate abnormal delays in depositing cash receipts. (C)
Trace the posting of individual sales invoices to the sales transaction file and to the trade receivables transaction file. (C)	Trace the posting of credit memos to the sales returns and allowances transaction file and to the trade receivables transaction file. (C)	Trace the total amounts of the daily deposits shown on the bank statements to the totals of the daily cash receipts shown in the cash receipts transaction file. Investigate unusual delays in depositing cash receipts and any splitting of daily cash receipts into separate deposits. (C)
Vouch recorded sales to the records of products ordered and shipped; agree dates, customers, products, quantities, prices and amounts. (O)	Vouch recorded credit memos with the documents supporting returns and allowances, as to dates, customers, products, quantities prices and amounts. (O)	Vouch entries in the cash receipts transaction file (e.g. date, remitter, amount) to the remittance advices, lists of cash receipts, duplicate deposit slips and bank statements. (O)

Adapted from Moroney, Robyn, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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SUBSTANTIVE TESTING – RECEIVABLES (Table 10.6)

EXAMPLE TESTS ALWAYS PERFORMED

Confirm accounts receivable. If accounts are confirmed at an interim date, review the roll-forward of activity from the confirmation date to year-end and compare the level of activity with the prior period. Investigate unusual items; consider confirming (at year-end) significant new accounts and those accounts with significant increases or decreases between the confirmation date and year-end. Examine subsequent cash receipts, shipping records, sales contracts and other evidence to verify the validity of accounts receivable for which replies to confirmation requests were unsatisfactory or were not obtained as part of supporting year-end receivables balances. (E)

Test the cut-off by inspecting the sales ledger, billings, shipping documents and other supporting documents immediately before and after the cut-off date and determine that the transactions were recorded in the proper period; compare the receivables cut-off to cut-offs in related areas (e.g. sales and inventory). (C)

Evaluate the adequacy of the allowances for doubtful accounts. See the example procedures that may be performed under other general procedures below. (V&A)

EXAMPLE ANALYTICAL PROCEDURES—Allowances/provision for doubtful debts

Compare the aged listing of accounts receivable with the prior period's and note any significant changes (e.g. changes in major customers, in major trade receivables balances overdue). (V&A)

Compare the current period's accounts written off and the provision for doubtful debts as percentages of accounts receivable and sales with the prior period's percentages. Evaluate the trends in light of current economic conditions and what you know about the client and the industry they operate in. (V&A)

EXAMPLE OTHER GENERAL PROCEDURES

Review evidence or obtain information concerning creditworthiness for large new accounts. (V&A)

Trace the totals of accounts receivable in the trade receivables sub-ledger to the general ledger control accounts or accounts receivable summary. (V&A, C)

Adapted from Maroney, Bollen, et al. (2017). *Auditing: A practical approach* (3rd ed.). Wiley

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