In the previous session, we talked about accounts payables and accruals. In this session, we are going to be talking about long-term loans. Remember, we are auditing the liability side of the statement of financial position now. We covered the asset side before and now we are covering the liability side. As you progress on, you will see that the audit becomes much easier. That's because you've gone through most of the procedures now and you are familiar with them. By now, with long-term loans, the audit is pretty simple and straightforward. So I'm just going to write it down as a bullet point audit. And we are going to discuss the reasons behind audit procedures as well. You should be able to guess too. So for long-term loans, the first thing that I want to check is the existence. Whether the management has recorded all loans that existed at a year end and that there are no falsifications in loans. Remember, falsification is not much of a problem in liabilities because management will not need to fake liabilities in statement of financial position. Existence of a loan can be confirmed from bank confirmation letter. If you remember the contents of bank confirmation letter, you will remember that we did confirm the number of loans and their outstanding balances in the confirmation letter too. So the existence of loans will be confirmed from bank confirmation letter. The second thing that we need to confirm is the completeness of loans. Whether all loans that were taken out during the year have actually been recorded in the statement of financial position or not. The completeness can be verified from two sources. The bank confirmation letter, which confirms the amount or the number of loans that are taken out during the year. Or from the bank statements. Remember, if a loan is taken out during the year, it is going to be a hefty amount that is going to be deposited in the company's bank account. And this hefty amount is going to be shown in the bank statement. So we can obtain bank statements for the year and we can check for any material amount that looks like a loan has been taken out by the business. We can then confirm whether this loan has been recorded in the statement of financial position or not. The third thing that we need to confirm is the accuracy of outstanding balance at year end. And this can be confirmed from the bank confirmation letter from where we have confirmed what the outstanding balance was. Once this is done, the fourth thing that needs to be confirmed is the classification and presentation. Now remember, this is very important and I need you guys to focus. Remember, with long term loans, certain portion of the loan is a short term while the rest of it is long term. How? The portion of loan that is repayable within the next 12 months will be classified as a current liability, While the portion of loan that is payable after 12 months is a non-current liability. So, we need to check this classification. We need to check this breakup. How does the auditor check this? The auditor recalculates the split between short-term and long-term loan or current liability and non-current liability using loan schedule. Remember, the loan schedule is provided by the bank and therefore, it will be a third-party document. So, next is checking the interest. Interest accuracy. So, we need to check two things. Number one, the rate of interest that can be confirmed from the loan agreement. So, this entire procedure would be “verify the rate of interest used for interest calculation from the loan agreement.” And we can also recalculate the interest expense for accuracy. Remember, outstanding balance of the loan has been confirmed from the bank confirmation letter. The rate of interest has been confirmed from the loan agreement. Therefore, recalculation will be very, very persuasive since both components of the calculation have been confirmed from a third-party source. The sixth is assets held as security. We need to confirm assets held as security against the loan. Now, these can be confirmed from two documents and both documents are third-party documents. The first one is the loan agreement which should mention which asset and how much of that asset will be held by the bank. And the second is a bank confirmation letter. If you remember the contents of bank confirmation letter, you would remember that we did confirm any assets that are held as security against the loan. So, these are the procedures that you need to remember for a long term loan. In the next session, we are going to be covering a practice question for long term loans.