

# Audit Analytics: Detection of Misclassified Drawings under IFRS

A. McBride using ChatGPT

November 8, 2025

## 1 Audit Analytics Case Study: Drawings Misclassified as Wages (IFRS Treatment)

### 1.1 Background and Detection Method

A data-driven audit test was performed on the synthetic general ledger using Python and the `scipy.stats.zscore()` function to calculate *Z-scores* for the net balance (Debit – Credit) of each journal entry. This statistical method identifies transactions that deviate significantly from the population mean.

$$Z_i = \frac{x_i - \bar{x}}{s} \quad (1)$$

where  $x_i$  represents the net value of journal  $i$ ,  $\bar{x}$  is the mean of all journal nets, and  $s$  is the standard deviation. Journals with  $|Z_i| > 3$  were classified as statistical outliers.

Journal **JRN–2024–0219** returned a *Z-score of -11.29*, indicating an extreme deviation from the mean, and was therefore selected for substantive analytical review.

### 1.2 Findings and Accounting Substance

Inspection of the journal revealed a large credit to the *Wages Expense* account, with offsetting debits to *Inventory* and *Interest Receivable*. The analysis determined that the business owner had withdrawn goods (inventory valued at £4,800) and interest-related income (£700) for personal use. These withdrawals had been erroneously recorded as wages expense, thereby understating profit.

### 1.3 Incorrect and Correct Journal Entries

Table 1: Original (Incorrect) Journal Entry

Account	Dr (£)	Cr (£)	Narrative
Wages Expense	5,500		Misposted as staff cost
Inventory		4,800	Stock withdrawn by owner
Interest Receivable / Cash		700	Interest element withdrawn

Table 2: Correction Journal Entry (Already Posted)

Account	Dr (£)	Cr (£)	Narrative
Drawings (Owner's Equity)	5,500		Correct classification as drawings
Wages Expense		5,500	Reversal of misposted wages

The correction restores profit and properly reduces equity. Final effect: Assets -£5,500; Equity -£5,500; Profit unchanged.

### 1.4 IFRS Compliance and Conceptual Framework Reference

- **IAS 1 – Presentation of Financial Statements** (para. 7, 106): Expenses are decreases in economic benefits other than those relating to distributions to owners. Since the withdrawal was for personal benefit, it constitutes a *distribution to the owner* and should not be treated as an expense.
- **Conceptual Framework for Financial Reporting** (2018, para. 4.84–4.86): Distributions to owners are defined as transfers of resources out of the entity to owners acting in their capacity as owners.
- **IAS 2 – Inventories** (para. 34): Inventories distributed to owners are recognised at carrying amount and deducted from equity, not charged to profit or loss.

### 1.5 Conclusion

The anomaly detection test successfully identified a non-routine journal entry based on statistical deviation. Substantive review confirmed that the entry represented a personal withdrawal misclassified as wages. The correction (Dr Drawings / Cr Wages Expense) was subsequently posted, realigning the accounts with IFRS-compliant equity presentation. This case demonstrates how data analytics can automatically surface misclassifications and support auditor judgement within an IFRS framework.