

Substantive Audit Testing: Revenue Cycle

MULTIPLE CHOICE:

1. Which of the following might be detected by an auditor's review of the client's sales cut-off?
- a. Excessive goods returned for credit.
 - b. Unrecorded sales discounts.
 - c. Lapping of year end accounts receivable.
 - d. Inflated sales for the year.

ANSWER: D

2. Which of the following forms of evidence represents the most competent evidence that a receivable actually exists?
- a. A positive confirmation.
 - b. A sales invoice.
 - c. A receiving report.
 - d. A bill of lading.

ANSWER: A

3. During the process of confirming receivables as of December 31, 2002, a positive confirmation was returned indicating the "balance owed as of December 31 was paid on January 9, 2003." The auditor would most likely
- a. Determine whether there were any changes in the account between January 1 and January 9, 2003.
 - b. Determine whether a customary trade discount was taken by the customer.
 - c. Reconfirm the zero balance as of January 10, 2003.
 - d. Verify that the amount was received.

ANSWER: D

4. Which of the following analytical audit findings would most likely indicate a possible problem?
- a. A material decrease in the receivables turnover.
 - b. A material increase in inventory turnover.
 - c. A material decrease in days' sales outstanding.
 - d. A material increase in the acid test ratio.

ANSWER: A

5. When the objective of the auditor is to evaluate the appropriateness of adjustments to sales, the best available evidence would normally be
- a. Oral evidence obtained by discussing adjustment-related procedures with controller personnel.
 - b. Analytical evidence obtained by comparing sales adjustments to gross sales for a period of time.
 - c. Physical evidence obtained by inspection of goods returned for credit.
 - d. Documentary evidence obtained by inspecting documents supporting entries to adjustment accounts.

ANSWER: D

6. An auditor will most likely detect kiting by
- a. Completing an analysis of interbank transfers and obtaining cutoff bank statements directly from all banks.
 - b. Reconciling all bank accounts as of year end.
 - c. Reconciling Bank A as of year end and Bank B at the end of the first week following year end.
 - d. Reconciling Bank B as of year end and Bank A at the end of the first week following year end.

ANSWER: A

7. An auditor should perform alternative procedures to substantiate the existence of accounts receivable when
- a. No reply to a positive confirmation request is received.
 - b. No reply to a negative confirmation request is received.
 - c. Collectability of the receivables is in doubt.
 - d. Pledging of the receivables is probable.

ANSWER: A

8. Two types of accounts receivable confirmation requests are used in practice-positive and negative. Negative confirmations may be used
- a. When internal control over sales and accounts receivable is weak.
 - b. Only where the auditor has assessed inherent risk and control risk as low, the auditor believes that the recipient will review the request, and a large number of small balances are involved.

- c. Only where internal control over sales and accounts receivable is strong.
- d. Only where the auditor has assessed inherent risk and control risk as low, the auditor believes that the recipient will review the request, and a small number of large balances are involved.

ANSWER: B

9. When counting cash on hand, the auditor must exercise control over all cash and other negotiable assets to prevent
- a. Theft.
 - b. Irregular endorsement.
 - c. Substitution.
 - d. Deposits in transit.

ANSWER: C

10. An auditor would primarily rely upon which type of evidential matter when evaluating the collectability of accounts receivable?
- a. Positive confirmation.
 - b. Negative confirmation.
 - c. Aged accounts receivable listing.
 - d. Management's representations.

ANSWER: C

11. As one of the year-end audit procedures, the auditor instructed the client's personnel to prepare a standard bank confirmation request for a bank account that had been closed during the year. After the client's treasurer had signed the request, it was mailed by the assistant treasurer. What is the major flaw in this audit procedure?
- a. The confirmation request was signed by the treasurer.
 - b. Sending the request was meaningless because the account was closed.
 - c. The request was mailed by the assistant treasurer.
 - d. The CPA did not sign the confirmation request before it was mailed.

ANSWER: C

12. A client who wishes to inflate earnings decides to hold the sales record open beyond year-end and record Year 2 sales

in Year 1. Although the invoices are dated as of year end, the shipments were made in the following period. Moreover, the goods were included in the ending inventory of the period under audit. Which of the following auditing procedures would not assist in detecting this form of fraudulent financial reporting?

- a. The auditor confirms accounts receivable on a positive basis as of year end.
- b. The auditor examines shipping documents relating to sales recorded during the last few days of the year.
- c. The auditor examines shipping documents relating to sales recorded during the first few days of the year following the period under audit.
- d. The auditor applies analytical procedures that compare gross profit rates and sales volume by month for the current and preceding years.

ANSWER: C

13. Which of the substantive field work procedures presented below provides the best evidence about the completeness of recorded revenues?

- a. Reconciling the sales journal to the general ledger control account.
- b. Vouching charges made to the accounts receivable subsidiary ledger to supporting shipping records.
- c. Vouching shipping records to the customer order files.
- d. Reconciling shipping records to recorded sales.

ANSWER: D

14. Although most substantive testing is performed during the final audit, some substantive tests may be done on the interim audit. Which of the following statements concerning the timing of substantive tests is true?

- a. When internal control is weak, extensive substantive testing should be performed during the interim audit.
- b. Substantive testing should be performed during the interim audit only under conditions of excellent internal control.
- c. As a general rule, the auditor performs substantive tests of balances as of the balance sheet date and tests transactions during the interim audit as well as the final audit.
- d. If internal control is weak, the auditor should confirm accounts receivable as of a point in time at least one month prior to the client's fiscal year end.

ANSWER: C

15. Smith is engaged in the audit of a cable TV firm which services a rural community. All receivable balances are small, customers are billed monthly, and internal control is effective. to determine the validity of the accounts receivable balances at the balance sheet date, Smith would most likely
- a. Send positive confirmation requests.
 - b. Send negative confirmation requests.
 - c. Examine evidence of subsequent cash receipts instead of sending confirmation requests.
 - d. Use statistical sampling instead of sending confirmation requests.

ANSWER: B

16. Which source document should an auditor use to verify the correct sales date for an item sold FOB shipping point?
- a. Carrier's bill of lading.
 - b. Customer's payment document.
 - c. Customer's purchase order.
 - d. Sales invoice.

ANSWER: A

17. Which of the following procedures would an auditor most likely rely on to verify management's assertion of completeness?
- a. Review standard bank confirmations for indications of kiting.
 - b. Compare a sample of shipping documents to related sales invoices.
 - c. Observe the client's distribution of payroll checks.
 - d. Confirm a sample of recorded receivables by direct communication with the debtors.

ANSWER: B

18. Which of the following is the most effective audit procedure to ascertain the accuracy of accounts receivable?
- a. Vouching.
 - b. Confirmation.
 - c. Recalculation.
 - d. Aging.

ANSWER: B

19. To gather evidence regarding the balance per bank in a bank reconciliation, an auditor would examine all of the following except
- Cutoff bank statement.
 - Year end bank statement.
 - Bank confirmation.
 - General ledger.

ANSWER: D

20. A member of the audit team noted that only one of the company's ten divisions had a large number of material sales transactions close to the end of the fiscal year. In terms of risk analysis, this would most likely lead the auditor to conclude that
- There is a relatively higher risk of overstatement of revenues for this division than for other divisions.
 - Risks associated with auditing this division are not affected by this information.
 - There is a high risk that liabilities of this division are understated.
 - There is a high risk that the other nine divisions have understated revenues.

ANSWER: A

21. Working papers ordinarily would not include
- Initials of the in-charge auditor indicating review of the staff assistants' work.
 - Cut-off bank statements received directly from the banks.
 - A memo describing the preliminary review of the internal control structure.
 - Copies of the client inventory count sheets.

ANSWER: B

22. Which account balance is most likely to be misstated if an aging of accounts receivable is not performed?
- Sales revenue.
 - Sales returns and allowances.
 - Accounts receivable.
 - Allowance for bad debts.

ANSWER: D

23. Confirmation is most likely to be a relevant form of evidence with regard to assertions about accounts receivable when the auditor has concerns about the receivables'

- a. Valuation.
- b. Classification.
- c. Existence.
- d. Completeness.

ANSWER: C

24. Which of the following statements regarding a balanced audit approach is true?

- a. Under conditions of weak internal control, assets and revenues should be tested for overstatement.
- b. A balanced audit approach suggests that assets and revenues be tested for overstatement, while liabilities and expenses be tested for understatement.
- c. To properly apply the concept of a balanced audit approach, the auditor must give equal attention to all of the financial statements.
- d. A balanced audit approach suggests that assets and expenses be tested for overstatement, while liabilities and revenues be tested for understatement.

ANSWER: D

25. An auditor confirms a representative number of open accounts receivable as of December 31, 2002, and investigates respondents' exceptions and comments. By this procedure, the auditor would be most likely to learn of which of the following?

- a. One of the cashiers has been covering a personal embezzlement by lapping.
- b. One of the sales clerks has not been preparing charge slips for credit sales to family and friends.
- c. One of the CBIS control clerks has been removing all sales invoices applicable to his account from the data file.
- d. The credit manager has misappropriated remittances from customers whose accounts have been written off.

ANSWER: A

26. Which of the following audit objectives is not served by confirming customers' accounts receivable?
- a. Valuation of accounts receivable as of the balance sheet date.
 - b. Existence of customers represented in the accounts receivable trial balance.
 - c. Completeness of customers represented in the accounts receivable trial balance.
 - d. Sales and accounts receivable cutoff.

ANSWER: C

27. An entity's financial statements were misstated over a period of years due to large amounts of revenue being recorded in journal entries that involved debits and credits to an illogical combination of accounts. The auditor could most likely have been alerted to this fraud by
- a. Scanning the general journal for unusual entries.
 - b. Performing a revenue cut-off test at year-end.
 - c. Tracing a sample of journal entries to the general ledger.
 - d. Examining documentary evidence of sales returns and allowances recorded after year-end.

ANSWER: A

28. Which of the following auditing procedures would the auditor not apply to a cutoff bank statement?
- a. Trace year end outstanding checks and deposits in transit to the cutoff bank statement.
 - b. Compare dates, payees and endorsements on returned checks with the cash disbursements record.
 - c. Determine that the year end deposit in transit was credited by the bank on the first working day of the following accounting period.
 - d. Reconcile the bank account as of the end of the cutoff period.

ANSWER: D

29. Before applying principal substantive tests to the details of asset and liability accounts at an interim date, the auditor should
- a. Assess the difficulty in controlling incremental audit risk.
 - b. Investigate significant fluctuations that have occurred

in the asset and liability accounts since the previous balance sheet date.

- c. Select only those accounts which can effectively be sampled during year-end audit work.
- d. Consider the control tests that must be applied at the balance sheet date to extend the audit conclusions reached at the interim date.

ANSWER: A

30. For customers not responding to a first request for positive confirmation requests, the auditor should next
- a. Contact the customer by telephone and attempt to confirm the balance orally.
 - b. Analyze subsequent remittances from the customer to see if the year end balance has been paid.
 - c. Send a second request for confirmation.
 - d. Examine underlying documentation supporting the year end balance.

ANSWER: C

31. An aged trial balance of accounts receivable is usually used by the auditor to
- a. Verify the validity of recorded receivables.
 - b. Ensure that all accounts are promptly credited.
 - c. Evaluate the results of compliance tests.
 - d. Evaluate the provision for bad debt expense.

ANSWER: D

32. A large university has relatively poor internal control. The auditor seeks assurance that all tuition revenue has been recorded. The auditor could best obtain the desired assurance by
- a. Confirming a sample of tuition payments with the students.
 - b. Observing tuition payment procedures on a surprise basis.
 - c. Comparing business office revenue records with registrar's office records of students enrolled.
 - d. Preparing a year-end bank reconciliation.

ANSWER: C

33. An auditor reconciles the total of the accounts receivable subsidiary ledger to the general ledger control account, as

of October 31, 2002. By this procedure, the auditor would be most likely to learn of which of the following?

- a. An October invoice was improperly computed.
- b. An October check from a customer was posted in error to the account of another customer with a similar name.
- c. An opening balance in a subsidiary ledger account was improperly carried forward from the previous accounting period.
- d. An account balance is past due and should be written off.

ANSWER: C

34. A client maintains two bank accounts. One of the accounts, Bank A, has an overdraft of \$10,000. The other account, Bank B, has a positive balance of \$5,000. To conceal the overdraft from the auditor, the client may decide to
- a. Draw a check for at least \$10,000 on Bank A for deposit in Bank B. Record the receipt but not the disbursement and list the receipt as a deposit in transit. Record the disbursement at the beginning of the following year.
 - b. Draw a check for \$10,000 on Bank B for deposit in Bank A. Record the disbursement but not the receipt. List the disbursement as an outstanding check, but do not list the receipt as a deposit in transit. Record the receipt at the beginning of the following period.
 - c. Draw a check for at least \$10,000 on Bank B for deposit in Bank A. Record the receipt but not the disbursement and list the receipt as a deposit in transit. Record the disbursement at the beginning of the following year.
 - d. Draw a check for at least \$10,000 on Bank A for deposit in Bank B. Record the disbursement but not the receipt and list the disbursement as an outstanding check. Record the receipt at the beginning of the following year.

ANSWER: C

35. On receiving the bank cutoff statement, the auditor should trace
- a. Deposits in transit on the year-end bank reconciliation to deposits in the cash receipts journal.

- b. Checks dated prior to year end to the outstanding checks listed on the year-end bank reconciliation.
- c. Deposits listed on the cutoff statement to deposits in the cash receipts journal.
- d. Checks dated subsequent to year-end to the outstanding checks listed on the year-end bank reconciliation.

ANSWER: B

36. An auditor's preliminary analysis of accounts receivable revealed the following turnover rates:

<u>Year 3</u>	<u>Year 2</u>	<u>Year 1</u>
4.3	6.2	7.3

Which of the following is the most likely cause of the decrease in accounts receivable turnover?

- a. Increase in the cash discount offered.
- b. Liberalization of credit policy.
- c. Shortening of due-date terms.
- d. Increased cash sales.

ANSWER: B

37. The auditor should ordinarily mail confirmation requests to all banks with which the client has conducted any business during the year, regardless of the year-end balance, since

- a. The confirmation form also seeks information about indebtedness to the bank.
- b. This procedure will detect kiting activities which would otherwise not be detected.
- c. The mailing of confirmation forms to all such banks is required by generally accepted auditing standards.
- d. This procedure relieves the auditor of any responsibility with respect to non-detection of forged checks.

ANSWER: A

38. Which of the following would be the most appropriate audit procedure to test the processing of interbank transfers?
- a. Analyze a sample of interbank transfers throughout the period including period-end reconciliations.
 - b. Obtain cutoff bank statements for each bank account and reconcile them to accounting records.
 - c. Send bank confirmation requests to each bank in which accounts are maintained and reconcile the completed forms to accounting records.

- d. Trace all bank deposits recorded in accounting records near the end of the fiscal period to supporting documentation and to bank statements.

ANSWER: A

39. The negative form of accounts receivable confirmation request is particularly useful except when
- a. Internal control surrounding accounts receivable is considered to be effective.
 - b. A large number of small balances are involved.
 - c. The auditor has reason to believe the persons receiving the request are likely to give them consideration.
 - d. Individual account balances are relatively large.

ANSWER: D

40. While performing an audit of cash, an auditor begins to suspect check kiting. Which of the following is the best evidence that the auditor could obtain concerning whether kiting is taking place?
- a. Documentary evidence obtained by vouching entries in the cash account to supporting documents.
 - b. Documentary evidence obtained by vouching credits on the latest bank statement to supporting documents.
 - c. Evidence obtained by preparing a schedule of interbank transfers.
 - d. Oral evidence obtained by discussion with controller personnel.

ANSWER: C

41. Tracing bills of lading to sales invoices will provide evidence that
- a. Recorded sales were shipped.
 - b. Invoiced sales were shipped.
 - c. Shipments to customers were invoiced.
 - d. Shipments to customers were recorded as sales.

ANSWER: C

42. The auditor should use positive confirmation of accounts receivable
- a. When variables estimation sampling techniques are not used.
 - b. For individual account balances that are immaterial in

- amount.
- c. When internal controls over the receivables process are believed to be strong.
 - d. When the possibility of disputes in the accounts is greater than usual.

ANSWER: D

43. When there are a large number of relatively small account balances, negative confirmation of accounts receivable is feasible if internal control is
- a. Strong, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration.
 - b. Weak, and the individuals receiving the confirmation requests are likely to give them adequate consideration.
 - c. Weak, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration.
 - d. Strong, and the individuals receiving the confirmation requests are likely to give them adequate consideration.

ANSWER: D

44. An internal auditor is concerned that a division may be intentionally shipping unordered merchandise to customers near the end of each quarter to meet sales goals. To determine if this is happening, the auditor should:
- a. Trace from a sample of shipping documents to related documents indicating removal from inventory.
 - b. Trace from a sample of shipping documents to related sales invoices.
 - c. Send accounts receivable confirmations to selected customers as of the end of the quarter.
 - d. Trace from a sample of sales invoices to related shipping documents.

ANSWER: C

45. In the confirmation of accounts receivable, the auditor would most likely
- a. Request confirmation of a sample of the inactive accounts.

- b. Seek to obtain positive confirmations for at least 50% of the total dollar amount of the receivables.
- c. Require confirmation of all receivables from agencies of the federal government.
- d. Require that confirmation requests be sent within one month of the fiscal year end.

ANSWER: A

46. Negative confirmation of accounts receivable is less effective than positive confirmation of accounts receivable because
- a. A majority of recipients usually lack the willingness to respond objectively.
 - b. Some recipients may report incorrect balances that require extensive follow-up.
 - c. The auditor cannot infer that all non-respondents have verified their account information.
 - d. Negative confirmations do not produce evidential matter that is statistically quantifiable.

ANSWER: C

47. Which of the following circumstances would most likely cause an auditor to suspect that material fraud exists in a client's financial statements?
- a. Property and equipment are usually sold at a loss before being fully depreciated.
 - b. Significantly fewer responses to confirmation requests are received than expected.
 - c. Monthly bank reconciliations usually include several in-transit items.
 - d. Clerical errors are listed on an CBIS-generated exception report.

ANSWER: B

48. Each of the following might, by itself, form a valid basis for an auditor to decide to omit a test except for the
- a. Difficulty and expense involved in testing a particular item.
 - b. Assessed level of control risk.
 - c. Relative risk involved.
 - d. Relationship between the cost of obtaining evidence and its usefulness.

ANSWER: A

COMPLETION:

49. In applying the concept of _____ in auditing, given that two or more alternate methods for obtaining evidence are equally effective in meeting the stated audit objective, the auditor should choose the least costly from among the alternatives.

ANSWER: COST/BENEFIT

50. An audit approach that is designed to avoid overemphasizing either income overstatement or income understatement is said to be _____.

ANSWER: BALANCED

51. Audit procedures that examine documentary evidence supporting sales transactions for a few days before and after year end are referred to as _____ tests.

ANSWER: SALES CUTOFF

52. Many accounts receivable confirmation exceptions involve goods or remittances in transit and usually _____ (do or do not) require adjustment.

ANSWER: DO NOT

53. A schedule that categorizes accounts receivable balances by period of time outstanding is referred to as a(n) _____ .

ANSWER: ACCOUNTS RECEIVABLE AGING ANALYSIS

54. A bank overdraft that is material in amount should be reported on the balance sheet as a _____ .

ANSWER: CURRENT LIABILITY

55. Kiting, a type of fraudulent financial reporting used to conceal bank overdrafts or cash misappropriations, may be detected by an analysis of _____ .

ANSWER: INTERBANK TRANSFERS

56. The time lag between the disbursing and payee banks for cash transfers is referred to as _____.

ANSWER: FLOAT

57. A _____ performs the same function as the bank reconciliation and, in addition, reconciles the client's recorded receipts and disbursements with bank statement credits and debits.

ANSWER: PROOF OF CASH

MATCHING:

58. Match each of the listed objectives with the auditing procedure that best meets the objective.

- A. Do an analysis of interbank transfers occurring a few days before and after year end
- B. Examine remittance advice, deposit slip, and bank statement
- C. Confirm all accounts debited to "allowance for doubtful accounts"
- D. Mail negative accounts receivable confirmations
- E. Complete a proof of cash
- F. Confirm all bank accounts
- G. Examine loan agreements and board of directors' minutes
- H. Complete an aging analysis of accounts receivable
- I. Obtain a cutoff bank statement directly from the bank and determine that year-end deposits in transit were credited by the bank within a few working days after year end
- J. Mail positive accounts receivable confirmations
- K. Perform sales cutoff procedures

- _____ 1. Sales are reported in the proper accounting period
- _____ 2. All recorded cash receipts have been deposited
- _____ 3. Determine whether any undisclosed bank overdrafts exist
- _____ 4. Determine the validity of a significant accounts receivable balance
- _____ 5. Determine that cash receipts have been recorded in the proper accounting period

- _____ 6. Ascertain whether accounts receivable have been pledged as loan collateral
- _____ 7. Verify that the client has recorded all loans obtained from banks
- _____ 8. Determine that accounts receivable are properly reflected at net realizable value
- _____ 9. Determine that proceeds from sale of land were deposited in the bank
- _____ 10. Ascertain propriety of accounts receivable write-offs during the year

SOLUTION:

1. K
2. E
3. A
4. J
5. I
6. G
7. F
8. H
9. B
10. C

PROBLEM/ESSAY:

59. The following bank reconciliation was prepared by the assistant controller of Hawkley, Inc., one of your audit clients:

Hawkley, Inc.
First National Bank and Trust
Bank Reconciliation
December 31, 2002

12/31/02	Balance per bank statement	\$12,000
	Add deposits in transit	<u>23,000</u>
		35,000
	Deduct outstanding checks:	
	20803	1,600
	21879	450
	21883	1,100

	21884	7,600	
	21885	<u>323</u>	
			<u>11,073</u>
12/31/02	Balance per general ledger		\$24,927
			=====

Additional data:

1. You obtained a cutoff bank statement, dated 1/9/03 directly from First National Bank and Trust and it revealed the following:

Deposits:

1/2/03	\$6,000
1/3/03	4,000
1/4/03	7,000
1/5/03	6,000
1/6/03	8,000
1/9/03	5,000

Checks:

<u>Check. No.</u>	<u>Check Date</u>	<u>Check Amount</u>
21879	12/29/02	\$ 450
21883	12/31/02	1,100
21884	12/31/02	7,600
21885	12/31/02	323
21886	12/31/02	4,557
21887	12/31/02	8,300
21888	1/2/03	1,250

REQUIRED:

a. Without examining any additional corroborating data, what do you think is the correct adjusted general ledger balance? Show all of your work and justify each addition or subtraction from the general ledger balance.

b. What other questions might be raised regarding the reconciliation?

SOLUTION:

a. Balance per general ledger as presented	\$24,927
Add (Deduct):	
Subtraction error (35,000 - 11,073 = 23,927) (1,000)	
Listed deposits in transit representing	
2003 cash receipts	(17,000) (1)
2002 checks not included in outstanding	

list	(12,857) (2)
Bank overdraft	\$ (5,930)
	=====

(1) The deposit in transit listed in the 12/31/02 bank reconciliation, \$23,000, is the sum of the first four deposits appearing on the 1/9/03 cutoff bank statement. Of these four, it is likely that only the first one for \$6,000, dated 1/2/03, represents the 12/31/02 deposit in transit. The latter three probably represent 2003 cash receipts. Deposits in transit, therefore, are overstated by \$17,000.

(2) Checks 21886 and 21887 are dated 12/31/02 and are therefore most likely 2002 disbursements. Outstanding checks, therefore, are understated by the amounts of these two checks, \$12,857.

b. Check 20803 for \$1,600 has not cleared as of the date of the cutoff bank statement and appears to have been drawn some time ago. Who is the payee? Why has the check not cleared? Should a new check be drawn? Should this check be restored to the cash account?

60. Brandi Smithers, CPA, is the auditor in charge of the Plessi, Inc. engagement for the year ended December 31, 2002. The following replies have been received in response to six accounts receivable confirmation requests:

<u>Balance per</u> <u>Confirmation</u>	<u>Balance per</u> <u>Customer</u>	<u>Explanation</u>
(A) \$12,000	\$4,000	Paid 1/9/03
(B) 46,882	12,882	Returned goods for credit on 12/29/02
(C) 67,921	10,000	Sales invoice #S3003, dated 1/4/03 in the amount of \$57,921, for goods received 1/3/03
(D) 16,364	16,364	No exception
(E) 98,500	Unknown	Unable to confirm. Customer accounts for transactions only. No record of balances maintained by customer.
(F) 64,000	16,000	Remainder in dispute

REQUIRED:

What auditing procedures should Smithers apply to satisfy herself regarding the above confirmation replies?

SOLUTION:

- (A) Examine remittance advice to verify payment.
- (B) Examine receiving report and freight invoice to determine whether received before 12/31/02. Determine if credit memo was issued.
- (C) Examine bill of lading and shipping order to determine when title passed. Reverse sale and reclassify as inventory if title did not pass prior to 12/31/02.
- (D) No additional procedures necessary.
- (E) Examine sales invoices and bills of lading supporting each of the transactions making up the balance. Consider confirming selected transactions with the customer.
- (F) Discuss account with credit manager, determine the nature of the dispute, and consider adequacy of allowance for doubtful accounts