**AUDITING**

**NOTES FOR PRE MID EXAM A.Y. 15/16**

**AUDIT REVENUE CYCLE**

1. Elaborate the objective of audit the revenue cycle.

The objective of audit the revenue cycle is to test the fairness of management assertions related to the sales transaction of products or services that become the main business of the entity, either cash sales or credit sales.

1. Elaborate the PCAOB framework that can be used as guidance in auditing the revenue cycle as well as the others transactions cycle.

As a guidance in auditing the transaction cycle, auditor can uses the PCAOB framework as follows:

1. Existence or occurrence
2. Completeness
3. Right and obligation
4. Valuation or allocation
5. Presentation and disclosures
6. What are the transactions related to revenue cycle

Transactions related to revenue cycle involves:

1. Cash sales
2. Credit sales
3. Cash settlement or cash receives for receivables
4. Allowance for doubtful accounts
5. Write-off of account receivables
6. Sales discounts
7. Sales return and allowance
8. Conversion of account receivables to notes receivables
9. What are the accounts affected by the revenue cycle transactions.

The accounts affected by the revenue cycle invoves:

1. Cash
2. Receivable
3. Sales
4. Bad debt expense
5. Allowance for bad debt expense
6. Sales discount
7. Sales return and allowance
8. Notes receivable
9. What are the organization functions related to the revenue cycle?

The organization functions involves:

1. Marketing
2. Sales
3. Credit authorization
4. Shipping of goods or services
5. Invoicing
6. Recording sales
7. Cash receive
8. What are the common documents and records related to the revenue cycle?

The documents and records involves:

1. Customer order
2. Sales order
3. Shipping document
4. Sales invoice
5. Authorized price list
6. Sales transactions file
7. Sales journal
8. Customer master file
9. Account receivable master file
10. Customer monthly statement
11. What are the important documents and records used in processing cash receipts?

The documents and records used in processing cash receipts include the following:

1. Remittance advice, this is a document mailed to the customer with the sales invoices to be returned with the payment showing the customer’s name and account number, invoice number, and amount owed.
2. Prelist, is a listing of cash receipts.
3. Cash count sheets, is a listing of cash and checks in a cash register.
4. Daily cash summary
5. Validated deposit slip
6. Cash receipts transaction file
7. Cash receipts journal

Notes: Entity may simplify the documents and records.

1. What does sales adjustment mean?

Sales adjustment is any adjustment to sales transaction, such as adjustment for sales return and allowance, sales discount, and account receivable write-off.

1. What are the common documents and records used in processing sales adjustments?

The common documents and records used in processing sales adjustments include the following.

1. Sales return authorization
2. Authorization for accounts receivable write-off
3. Receiving report
4. Credit memo
5. Journal entry
6. List the initial procedures for the substantive tests of account receivable assertions.

The initial procedures for the substantive tests of account receivable assertions involves:

1. Obtain an understanding of the business and industry, to determine:
2. The significant of revenues and accounts receivable to the entity.
3. Key economic drivers that influence the entity’s sales, margins, and collections.
4. Standard trade terms in the industry, including seasonal dating, collection period, etc.
5. The extent of concentration of activity with customers.
6. Perform initial procedures accounts receivable balance and records that will be subjected to further testing, involves:
7. Trace beginning balance for accounts receivable to prior year’s working papers.
8. Review activity in general ledger account for accounts receivable and investigate entries that appear unusual in amount or source.
9. Obtain account receivable trial balance and determine that it accurately represents the underlying accounting records by:

c.1. Footing the trial balance and determining agreement with (a) the total of the subsidiary ledger or accounts receivable master file, and (2) the general ledger balance.

c.2. Testing agreement of customer and balances listed on the trial balance with those included in the subsidiary ledger or master file.

1. List the tests detail of transactions for accounts receivable assertions.

The tests detail of transactions for accounts receivable assertions involve:

1. Vouching the sample of recorded revenue cycle transactions to supporting documentation.
2. Tracing sample of revenue cycle transactions documents, such as sample of sale invoices, to sales journal. Also trace sample of cash receipts and sales returns to their recording in the accounting records.
3. Perform cut of test for sales and sales returns, such as selecting sample of recorded sales transactions several days before and after year-end to determine the proper period of the recording transactions.
4. Perform cash receipts cut-off test, to evaluate the proper period of the recording cash receipts.
5. What are you going to do in conducting tests detail of accounts receivable balances?

Test detail of accounts receivable balances is conducted by sending confirmation letter to the selected accounts receivable.

AUDIT EXPENDITURE CYCLE

1. Elaborate the objective of audit the expenditure cycle.
2. Instead of using the PCAOB framework as guidance in auditing the expenditures cycle as well as the others transactions cycle, auditor can use the AICPA framework. Elaborate the AICPA framework for the audit of management assertions.
3. What are the transactions related to the expenditure cycle

Transactions related to expenditure cycle involves:

1. What are the accounts affected by the expenditure cycle transactions.

The accounts affected by the expenditure cycle invoves:

1. What are the organization functions related to the expenditure cycle?

The organization functions involves:

1. What are the common documents and records related to the expenditure cycle?

The documents and records involves:

1. What are the important documents and records used in processing cash disbursements?

The documents and records used in processing cash disbursements include the following:

1. What does purchase adjustment mean?
2. What are the common documents and records used in processing the purchase adjustments?

The common documents and records used in processing the purchase adjustments include the following.

1. List the initial procedures for the substantive tests of account payable assertions.

The initial procedures for the substantive tests of account payable assertions involves:

1. List the tests detail of transactions for accounts payable assertions.

The tests detail of transactions for accounts payable assertions involve:

AUDIT HUMAN RESOURCE/PAYROLL CYCLE

1. Elaborate the objective of audit the human resource/payroll cycle.
2. What are the transactions related to the human resource/payroll cycle

Transactions related to the human resource/payroll cycle involves:

1. What are the accounts affected by the human resource/payroll cycle transactions.

The accounts affected by the human resource/payroll cycle invoves:

1. What are the organization functions related to the human resource/payroll cycle?

The organization functions involves:

1. What are the common documents and records related to the human resource/payroll cycle?

The documents and records involves:

AUDIT PRODUCTION CYCLE

1. Elaborate the objective of audit the production cycle.
2. What are the transactions related to the production cycle

Transactions related to the production cycle involves:

1. What are the accounts affected by the production cycle transactions.

The accounts affected by the production cycle invoves:

1. What are the organization functions related to the production cycle?

The organization functions involves:

1. What are the common documents and records related to the production cycle?

The documents and records involves:

34. List the audit procedures for the substantive tests of production cycle.

AUDIT INVESTMENT IN PPE

1. Elaborate the objective of audit the investment in PPE cycle.
2. What are the transactions related to the investment in PPE cycle

Transactions related to the investment in PPE cycle involves:

1. What are the accounts affected by the investment in PPE cycle transactions.

The accounts affected by the investment in PPE cycle invoves:

1. What are the organization functions related to the investment in PPE cycle?

The organization functions involves:

1. What are the common documents and records related to the investment in PPE cycle?

The documents and records involves:

1. List the audit procedures for the substantive tests of investment in PPE cycle.

AUDIT FINANCING CYCLE

1. Elaborate the objective of audit the financing cycle.
2. What are the transactions related to the financing in PPE cycle

Transactions related to the financing in PPE cycle involves:

1. What are the accounts affected by the financing cycle transactions.

The accounts affected by the financing cycle invoves:

1. What are the organization functions related to the financing cycle?

The organization functions involves:

1. What are the common documents and records related to the financing cycle?

The documents and records involves:

1. List the audit procedures for the substantive tests of the financing cycle.