Chapter 14 Homework

11-26 1. a. Error.
   b. Internal verification of invoice preparation and posting by an independent person.
   c. Test clerical accuracy of sales invoices.

2. a. Fraud.
   b. The prelisting of cash receipts should be compared to the postings in the accounts receivable master file and to the validated bank deposit slip.
   c. Trace cash received from prelisting to cash receipts journal. Confirm accounts receivable.

3. a. Error.
   b. Use of prenumbered bills of lading that are periodically accounted for.
   c. Trace a sequence of prenumbered bills of lading to recorded sales transactions. Confirm accounts receivable at year-end.

4. a. Error.
   b. No merchandise may leave the plant without the preparation of a prenumbered bill of lading.
   c. Trace credit entries in the perpetual inventory records to bills of lading and the sales journal. Confirm accounts receivable at year-end.

5. a. Error.
   b. Internal review and verification of account classification by an independent person.
   c. Test accuracy of invoice classification.

6. a. Error.
   b. Online sales are supported by shipping documents and approved online customer orders.
   c. Trace sales journal or listing entries to supporting documents for online sales, including sales invoices, shipping documents, sale orders, and customer orders.

7. a. Error.
   b. Sales invoices are prenumbered, properly accounted for in the sales journal, and a notation on the invoice is made of entry into the sales journal.
   c. Account for numerical sequence of invoices recorded in the sales journal, watching for duplicates. Confirm accounts receivable at year-end.

8. a. Fraud.
   b. All payments from customers should be in the form of a check payable to the company. Monthly statements should be sent to all customers.
   c. Trace from recorded sales transactions to cash receipts for those sales; confirm accounts receivable balances at year-end.
1. a. Test of control
   b. Existing sales transactions are recorded. (Completeness)
   c. Documentation

2. a. Test of control
   b. Recorded sales are for shipments actually made to existing customers. (Occurrence)
   c. Documentation

3. a. Substantive test of transactions
   b. Recorded sales are for the amount of goods shipped. (Accuracy)
   c. Documentation

4. a. Substantive test of transactions
   b. Sales transactions are properly included in the accounts receivable master file and are correctly summarized. (Posting and summarization)
   c. Reperformance

5. a. Test of control
   b. Recorded sales returns are for returns from existing customers. (Occurrence)
   c. Documentation

6. a. Test of control
   b. (1) Cash received is recorded in the cash receipts journal. (Completeness)
      (2) Cash receipts are recorded on the correct dates. (Timing)
   c. Observation or documentation

7. a. Substantive test of transactions
   b. (1) Recorded receipts are for funds actually received by the company. (Occurrence)
      (2) Cash received is recorded in the cash receipts journal. (Completeness)
      (3) Cash receipts are deposited at the amount received. (Accuracy)
      (4) Cash receipts are recorded on the correct dates. (Timing)
   c. Documentation
<table>
<thead>
<tr>
<th>CONTROL</th>
<th>TRANSACTION-RELATED AUDIT OBJECTIVE</th>
<th>POTENTIAL FINANCIAL STATEMENT MISSTATEMENT IF CONTROL IS ABSENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Occurrence</td>
<td>Sales may be recorded for invalid or non-existent products.</td>
</tr>
<tr>
<td></td>
<td>Accuracy</td>
<td>Sales may be processed based on inaccurate price information.</td>
</tr>
<tr>
<td>2.</td>
<td>Occurrence</td>
<td>Sales may be recorded for non-existent products.</td>
</tr>
<tr>
<td></td>
<td>Accuracy</td>
<td>Sales may be processed for existing products using quantities ordered, even when ordered quantities are not on hand.</td>
</tr>
<tr>
<td>3.</td>
<td>Occurrence</td>
<td>Sales may be processed for customers who are unable to pay.</td>
</tr>
<tr>
<td>4.</td>
<td>Occurrence</td>
<td>Shipments may be made to persons making an unauthorized credit card purchase (e.g., with a stolen credit card).</td>
</tr>
<tr>
<td>5.</td>
<td>Accuracy</td>
<td>Sales may be processed inaccurately (e.g., wrong product, wrong price, wrong quantity).</td>
</tr>
<tr>
<td>6.</td>
<td>Occurrence</td>
<td>Sales may be recorded even though shipment has not occurred.</td>
</tr>
<tr>
<td></td>
<td>Timing</td>
<td>Sales may be recorded in the wrong time period.</td>
</tr>
</tbody>
</table>
14-35 – ACL Problem

a. There are 112 transactions in the month of September, 2002. The total amount of these transactions is $127,941.13 (Filter expression is DATE1 >= ‘20020901’ AND DATE1 <= ‘20020930’; Count command; then Total command).

b. Type “IN” has the highest count. See the following report created using the Summarize command:

```
Page 1  04/10/2009  12:09:18
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<table>
<thead>
<tr>
<th>TYPE</th>
<th>AMOUNT</th>
<th>COUNT</th>
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</thead>
<tbody>
<tr>
<td>AA</td>
<td>-533.59</td>
<td>1</td>
</tr>
<tr>
<td>CN</td>
<td>-9025.02</td>
<td>108</td>
</tr>
<tr>
<td>IN</td>
<td>525259.16</td>
<td>588</td>
</tr>
<tr>
<td>PM</td>
<td>-45281.38</td>
<td>71</td>
</tr>
<tr>
<td>TR</td>
<td>-1538.48</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>468880.69</td>
<td>772</td>
</tr>
</tbody>
</table>
```

c. There are 588 sales invoices (IN), totaling $525,259.16. The largest single invoice amount is $5,549.19 and the average invoice amount is $893.30. (Filter by invoice type = IN; then use Statistics command on the Amount column.)

d. Leaving the filter from part c intact, create a computed field with the following expression: DUE – DATE1 and then add this column to the table view. Several of the invoices have negative results, which means that possibly the wrong year was used for the due date. Also, some are 90 days old, which indicates potential collection problems.

e. See the following printout:, which is the result of using the Stratify command after a filter is applied to isolate “IN” transactions greater than or equal to $300.