

**ENTITY NAME:** \_\_\_\_\_

**PREPAID EXPENSES, DEFERRED CHARGES, INTANGIBLES,  
AND OTHER ASSETS**

We need to understand:

- How and by whom the transactions are initiated
- The accounting processing involved from initiation of a transaction to its inclusion in the general ledger or financial statements, including how the computer is used to process data
- The supporting documents involved, including accounting records and journals, source documents, and electronic means involved in the processing of the transactions
- The documents and reports generated by the accounting system

**SECTION A**

**INTERNAL CONTROL OBJECTIVES**

- Expenditures resulting in prepaid expenses, deferred charges, intangibles, and other assets are incurred only with proper authorization.
- Prepaid expenses, deferred charges, intangibles, and other assets are recorded correctly as to account, amount, and period.
- Amortization or loss in value is recorded correctly as to account, amount, and period.
- The carrying values of assets are recoverable.

**POTENTIAL ERRORS AND FRAUD**

- Supplies and promotional items are not inventoried and are exposed to theft.
- Expenditures are misclassified, recorded at wrong amounts, or not recorded.
- Misclassifications are used to conceal unauthorized expenditures for the benefit of employees.
- Amortization period exceeds period of benefit.
- Amortization of assets is miscalculated.
- Assets remain on the books after disposal or expiration of the benefit period.
- Intangible assets are carried in excess of value.
- Intangibles known to be worthless are not written off.

**UNDERSTANDING OF ACCOUNTING SYSTEM**

1. How and by whom are the transactions initiated?

---

---

---

2. Describe the source documents that support the transactions.

---

---

---

3. Describe the computer media that is used in the processing of accounting information.

---

---

---

4. Describe the documents and reports generated by the accounting system.

---

---

---

5. Describe the accounting processing, records, and files (including how frequently they are updated) that are used to process the transactions, including how transactions are reflected in journals of original entry and in the general ledger.

---

---

---

**SECTION B**

**FURTHER UNDERSTANDING OF CONTROL ACTIVITIES**

	Yes	No	N/A
1. Are all such transactions executed in accordance with management authorizations?	_____	_____	_____
2. Is property and liability insurance coverage maintained and reviewed periodically for adequacy?	_____	_____	_____
3. Are the unexpired amounts of premiums that were paid in advance carried as assets in prepaid expenses?	_____	_____	_____
4. Is documentation adequate regarding intangible assets, including:			
a. Specific identity and legal title, if applicable?	_____	_____	_____
b. Manner of acquisition (e.g., purchased, developed internally)?	_____	_____	_____
c. Basis for the capitalized amount?	_____	_____	_____
d. Expected period of benefit?	_____	_____	_____
e. Amortization method?	_____	_____	_____
5. Are amortization periods and calculations approved and periodically reviewed by a responsible person?	_____	_____	_____
6. Are the carrying values of all such assets periodically reviewed for reasonableness, and are appropriate adjustments or write-downs made?	_____	_____	_____
7. Are write-downs of carrying values properly documented and approved?	_____	_____	_____