

ENTITY NAME: _____

ACCOUNTS RECEIVABLE AND REVENUE

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

- Services rendered are billed and properly and promptly recorded in the general ledger and subsidiary records.
- Billings and revenues are recorded correctly as to account, amount, and period.
- Recorded billings are for valid transactions.
- Allowances are approved and recorded correctly as to account, amount, and period.
- Uncollectible accounts are promptly identified and provided for.
- Deposits are received (where required) before initiation of service.

POTENTIAL ERRORS AND FRAUD

- Services rendered but not billed; accounts receivable are not recorded.
- Billings are recorded, but services are not rendered at all or are not rendered until the following period.
- Customers are billed at incorrect amounts.
- Revenues are recorded in the wrong period to achieve desired earning trends.
- Services are initiated without adequate deposit provided.
- Accounts receivable are aged incorrectly, and potentially uncollectible amounts are not recognized.
- Accounts receivable are improperly written off to conceal misappropriation of cash receipts.
- Credits issued for returns or allowances are not earned or are not in accordance with company policy.

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

Sales

	Yes	No	N/A
1. Are services initiated by someone independent of cash receipts?	_____	_____	_____
2. Are there adequate procedures for initiating services to new customers? If yes:	_____	_____	_____
a. Is the credit of prospective customers investigated before it is extended to them?	_____	_____	_____
b. Are deposits regularly reviewed and compared to balances outstanding?	_____	_____	_____
3. Is there timely communication of new services, and changes thereto, to personnel responsible for billing changes?	_____	_____	_____
4. Are standard price lists used for basic sales prices and deposits? If yes:	_____	_____	_____
a. Are they reviewed periodically?	_____	_____	_____
b. Are deviations from the price lists approved by designated employees?	_____	_____	_____

Billings and Valuation

	Yes	No	N/A
1. Are sales invoices:			
a. Prenumbered and issued in numerical sequence?	_____	_____	_____
b. Prepared for all sales?	_____	_____	_____
c. Checked for clerical accuracy?	_____	_____	_____
d. Verified for prices used?	_____	_____	_____
2. Are adequate records maintained of daily sales (e.g., in a sales journal) and compared to postings to the general ledger?	_____	_____	_____
3. Are accounts receivable postings reconciled to the sales journal?	_____	_____	_____
4. Is the billing function performed by employees who are independent of the cash functions?	_____	_____	_____
5. Are employees who are responsible for maintaining customers' accounts receivable ledgers independent of the general ledger function?	_____	_____	_____
6. Are customer accounts aged regularly? If yes:	_____	_____	_____
a. Are they reviewed regularly by designated personnel?	_____	_____	_____

	Yes	No	N/A
b. Are past due or delinquent accounts or unusual items investigated in a timely manner?	_____	_____	_____
c. Are credit balances investigated?	_____	_____	_____
7. Is the accounts receivable subsidiary ledger reconciled regularly to the general ledger control account?	_____	_____	_____
8. Are statements of accounts or invoices mailed monthly to customers? If yes:	_____	_____	_____
a. Are they sent by an employee who is independent of the accounts receivable and cash functions?	_____	_____	_____
b. Are discrepancies and complaints investigated by an employee independent of cash functions?	_____	_____	_____
9. Is the accounts receivable detail reviewed periodically to determine the need for a valuation allowance for doubtful accounts?	_____	_____	_____
10. Are writeoffs of uncollectible accounts approved by an employee other than the billing manager or the accounts receivable clerk?	_____	_____	_____
11. Are accounts receivable that have been written off turned over to collection agencies or lawyers?	_____	_____	_____
12. Does a responsible official, senior to the accounts receivable clerk, approve journal entries affecting accounts receivable?	_____	_____	_____