

How to Audit Receivables

By Steven M. Bragg, CPA

Table of Contents

Chapter 1 – Auditing Receivables	1
Learning Objectives	1
Introduction.....	1
Auditor Objectives.....	2
Auditing Characteristics of Receivables.....	2
Receivables Process Flow	4
Receivable Fraud Schemes	5
Diversion of Collections on Old Receivables.....	5
Lapping.....	5
Fake Receivables	6
Fake Notes	6
Auditing Activities.....	6
Inherent Risk Assessment.....	6
Material Misstatement Assessment	7
Accounts Receivable Aging Report	8
Substantive Procedures	8
Examine Accounts Receivable Aging Report.....	10
Inspect and Confirm Notes.....	10
Confirm Receivables	11
Positive Confirmations.....	13
Negative Confirmations.....	13
Mixed Confirmations	14
Sample Confirmation.....	14
Confirmation Sample Size.....	17
Dealing with Discrepancies	17
Dealing with Nonresponses.....	18
Management Refuses to Allow Confirmations.....	18
Confirmation of Write-Offs.....	19
Review Cutoff	19
Test Notes Receivable	19
Fair Value Option	20
Evaluate Receivables Accounting.....	20
Examine Allowance for Doubtful Accounts.....	21
Investigate Legal Encumbrances.....	22
Search for Related Parties	23
Conduct Analytical Procedures.....	24
Review Presentation	25
Internal Controls Used by the Client	25
Advance Work	28
Summary	29
Review Questions	30
Review Answers	31

Table of Contents

Chapter 2 – The Allowance for Doubtful Accounts	33
Learning Objectives	33
Introduction.....	33
Estimation of the Allowance for Doubtful Accounts	33
Accounting for the Allowance for Doubtful Accounts	34
The Direct Write-Off Method.....	35
Summary	36
Review Questions	38
Review Answers	39
Chapter 3 – Accounting for Notes Receivable.....	41
Learning Objectives	41
Introduction.....	41
Notes Receivable.....	41
The Amortization Schedule	43
Imputed Interest.....	44
Summary	47
Review Questions	48
Review Answers	49
Glossary	51
Index.....	53