

## CREDITORS AND ACCRUALS

Purchases are often tested in conjunction with the audit of trade creditors and so are discussed in this section.

### AUDIT OBJECTIVES FOR CREDITORS

The following table demonstrates the audit objectives for creditors and accruals and how these are related to the financial statement assertions relevant to this balance sheet area.

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Assertions about classes of transactions     | <ul style="list-style-type: none"><li>- All purchase transactions recorded have occurred and relate to the entity (<b>occurrence</b>)</li><li>- All purchase transactions that should have been recorded have been recorded (<b>completeness</b>)</li><li>- Amounts relating to purchase transactions have been recorded appropriately (<b>accuracy</b>)</li><li>- Purchase transactions have been recorded in the correct period (<b>cut-off</b>)</li><li>- Purchase transactions are recorded properly (<b>classification</b>)</li></ul>                           |
| Assertions about year-end account balances   | <ul style="list-style-type: none"><li>- Trade creditors and accrued expenses are valid liabilities (<b>existence</b>)</li><li>- Trade creditors and accrued expenses are the obligation of the entity (<b>rights and obligations</b>)</li><li>- All liabilities have been recorded (<b>completeness</b>)</li><li>- All liabilities are included in the accounts at the appropriate amounts (<b>valuation and allocation</b>)</li></ul>                                                                                                                               |
| Assertions about presentation and disclosure | <ul style="list-style-type: none"><li>- All disclosed events and transactions relating to liabilities have occurred and relate to the entity (<b>occurrence and rights and obligations</b>)</li><li>- All disclosures required have been included (<b>completeness</b>)</li><li>- Financial information is appropriately presented and described, and disclosures clearly expressed (<b>classification and understandability</b>)</li><li>- Financial and other information is disclosed fairly and at appropriate amounts (<b>accuracy and valuation</b>)</li></ul> |

## AUDIT PROCEDURES FOR CREDITORS AND ACCRUALS

Auditors should be particularly aware, when conducting their balance sheet work, of the possibility of the understatement of liabilities to improve liquidity and profits. The primary objective of the balance sheet work will therefore be to ascertain whether liabilities existing at the year end have been completely and accurately recorded.

Audit procedures for creditors and accruals are set out in the table below.

| AUDIT PLAN: CREDITORS AND ACCRUALS |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COMPLETENESS                       | <ul style="list-style-type: none"><li>• Obtain a listing of trade creditors and <b>agree</b> the total to the general ledger by casting and cross-casting.</li><li>• Test for unrecorded liabilities by <b>inquiries of management</b> on how unrecorded liabilities and accruals are identified and examining post year-end transactions.</li><li>• Obtain selected suppliers' statements and <b>reconcile</b> these to the relevant suppliers' accounts (see section 2.3 for details of suppliers' statements).</li><li>• Examine files of unmatched purchase orders and supplier invoices for any <b>unrecorded liabilities</b>.</li><li>• Perform a <b>confirmation of creditors</b> for a sample (see section 2.2 for details of the creditors' confirmation)</li></ul> |

# AUDIT PLAN: CREDITORS AND ACCRUALS

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|                          | <ul style="list-style-type: none"> <li>• Complete the <b>disclosure checklist</b> to ensure that all the disclosures relevant to creditors have been made.</li> <li>• <b>Compare</b> the current year balances for trade creditors and accruals to the previous year.</li> <li>• <b>Compare</b> the amounts owed to a sample of individual suppliers in the trade creditors listing to amounts owed to these suppliers in the previous year.</li> <li>• <b>Compare</b> the trade creditors' turnover and creditors' days to the previous year and industry data.</li> <li>• <b>Reperform</b> casts of <b>payroll records</b> to confirm completeness and accuracy.</li> <li>• <b>Confirm</b> payment of net pay per payroll records to cheque or bank transfer summary.</li> <li>• <b>Agree</b> net pay per cash book to payroll.</li> <li>• <b>Inspect</b> payroll for <b>unusual items</b> and <b>investigate</b> them further by <b>discussion</b> with management.</li> <li>• Perform <b>proof-in-total (analytical review)</b> on payroll and compare to figure in draft financial statements to assess reasonableness.</li> </ul> |
| EXISTENCE                | <ul style="list-style-type: none"> <li>• <b>Vouch</b> selected amounts from the trade creditors listing and accruals listing to supporting documentation such as purchase orders and suppliers' invoices.</li> <li>• Obtain selected suppliers' statements and <b>reconcile</b> these to the relevant suppliers' accounts.</li> <li>• Perform a <b>confirmation of creditors</b> for a sample.</li> <li>• Perform <b>analytical procedures</b> comparing current year balances to the previous year to confirm reasonableness, and also calculating trade creditors' turnover and comparing to the previous year.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| RIGHTS AND OBLIGATIONS   | <ul style="list-style-type: none"> <li>• <b>Vouch</b> a sample of balances to supporting documentation such as purchase orders and suppliers' invoices to obtain audit evidence regarding rights and obligations.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| VALUATION AND ALLOCATION | <ul style="list-style-type: none"> <li>• <b>Trace</b> selected samples from the trade creditors listing and accruals listing to the supporting documentation (purchase orders, minutes authorising expenditure, suppliers' invoices etc)</li> <li>• Obtain selected suppliers' statements and <b>reconcile</b> these to the relevant suppliers' accounts.</li> <li>• For a sample of <b>accruals</b>, <b>recalculate</b> the amount of the accrual to ensure the amount accrued is correct.</li> <li>• <b>Compare</b> the current year balances for trade creditors and accruals to the previous year.</li> <li>• <b>Compare</b> the amounts owed to a sample of individual suppliers in the trade creditors listing to amounts owed to these suppliers in the previous year.</li> <li>• <b>Compare</b> the trade creditors' turnover and creditors' days to the previous year and industry data.</li> </ul>                                                                                                                                                                                                                            |

| AUDIT PLAN CREDITORS AND ACCRUALS    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CUT-OFF                              | <ul style="list-style-type: none"> <li>For a sample of vouchers, <b>compare the dates</b> with the dates they were recorded in the ledger for application of correct cut-off.</li> <li><b>Test transactions</b> around the year-end to determine whether amounts have been recognised in the correct financial period.</li> <li><b>Perform analytical procedures</b> on purchase returns, comparing the purchase returns as a % of sales or cost of sales to the previous year.</li> </ul>                                               |
| ACCURACY                             | <ul style="list-style-type: none"> <li><b>Recalculate</b> the mathematical accuracy of a sample of suppliers' invoices to confirm the amounts are correct.</li> <li><b>Recast</b> calculation of <b>remuneration</b>.</li> <li><b>Reperform</b> calculation of <b>statutory deductions</b> by <b>agreeing</b> to supporting documentation.</li> <li><b>Recast</b> calculation of <b>other deductions</b>.</li> </ul>                                                                                                                     |
| OCCURRENCE                           | <ul style="list-style-type: none"> <li>For a sample of vouchers, <b>inspect</b> supporting documentation such as authorised purchase orders.</li> <li><b>Agree individual remuneration</b> per payroll to personnel records, records of hours worked, salary agreements etc.</li> <li>Confirm <b>existence</b> of employees on payroll by meeting them, attending wages payout, inspecting personnel and tax records, and confirmation from managers.</li> <li><b>Agree benefits</b> on payroll to supporting correspondence.</li> </ul> |
| CLASSIFICATION AND UNDERSTANDABILITY | <ul style="list-style-type: none"> <li><b>Review</b> the trade creditors listing to identify any large debits (which should be reclassified as debtors or deposits) or long-term creditors which should be disclosed separately.</li> <li><b>Read</b> the disclosure notes relevant to liabilities in the draft financial statements and review for understandability.</li> </ul>                                                                                                                                                        |
| ACCURACY AND VALUATION               | <ul style="list-style-type: none"> <li><b>Read</b> the disclosure notes to ensure the information is accurate and properly presented at the appropriate amounts.</li> </ul>                                                                                                                                                                                                                                                                                                                                                              |