

DEBTORS

The audit of debtors is important as this is likely to be a material balance sheet area. A combination of analytical procedures and substantive tests are used, with sales also being tested in conjunction with trade debtors.

AUDIT OBJECTIVES FOR DEBTORS

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

Assertions about classes of transactions	- All sales transactions recorded have occurred and relate to the entity (occurrence) - All sales transactions that should have been recorded have been recorded (completeness) - Amounts relating to transactions have been recorded appropriately (accuracy) - All transactions have been recorded in the correct period (cut-off) - All transactions are recorded properly (classification)
Assertions about year-end account balances	- Recorded debtors exist (existence) - The entity controls the rights to debtors and related accounts (rights and obligations) - All debtors that should have been recorded have been recorded (completeness) - Debtors are included in the accounts at the correct amounts (valuation and allocation)
Assertions about presentation and disclosure	- All disclosed events and transactions relating to debtors have occurred and pertain to the entity (occurrence and rights and obligations) - All disclosures required have been included (completeness)
	- Financial information is appropriately presented and described, and disclosures clearly expressed (classification and understandability) - Financial and other information is disclosed fairly and at appropriate amounts (accuracy and valuation)

AUDIT PROCEDURES FOR DEBTORS

Audit procedures for debtors are set out in the table below. This covers the audit of sales and prepayments as well as trade debtors. Debtors are often tested in conjunction with sales. The key assertions for sales are occurrence, completeness and accuracy.

AUDIT PLAN: DEBTORS	
COMPLETENESS	• Agree the balance from the individual sales ledger accounts to the aged debtors' listing and vice versa. • Match the total of the aged debtors' listing to the sales ledger control account. • Cast and cross-cast the aged trial balance before selecting any samples to test. • Trace a sample of shipping documentation to sales invoices and into the sales and debtors' ledger. • Complete the disclosure checklist to ensure that all the disclosures relevant to debtors have been made. • Compare the gross profit % by product line with the previous year and industry data. • Compare the level of prepayments to the previous year to ensure the figure is materially correct and complete. • Review detailed balance sheet to ensure all likely prepayments have been included.
EXISTENCE	• Perform a debtors' circularisation on a sample of year-end trade debtors (see section 3 for details of how to undertake the debtors' circularisation). • Follow up all balance disagreements and non-replies to the debtors' confirmation. • Perform alternative procedures for any exceptions and non-replies to the debtors' confirmation, such as: • Review after-date cash receipts by inspecting bank statements and cash receipts documentation. • Examine the customer's account and customer correspondence to assess whether the balance outstanding represents specific invoices and confirm their validity. • Examine the underlying documentation (purchase order, dispatch documentation, duplicate sales invoice etc).

AUDIT PLAN: DEBTORS

	• Inquire from management explanations for invoices remaining unpaid after subsequent ones have been paid. • Observe whether the balance on the account is growing and if so, find out why by discussing with management.
RIGHTS AND OBLIGATIONS	• Review bank confirmation for any liens on debtors. • Make inquiries of management, review loan agreements and review board minutes for any evidence of debtors being sold (eg to debt factors).
VALUATION AND ALLOCATION	• Compare debtors' turnover and debtors' days to the previous year and/or to industry data. • Compare the aged analysis of debtors from the aged trial balance to the previous year. • Review the adequacy of the provision for bad and doubtful debts through discussion with management. • Compare the bad debt expense as a % of sales to the previous year and/or to industry data. • Compare the provision for bad and doubtful debts as a % of debtors or credit sales to the previous year and/or to industry data. • Confirm adequacy of provision by reviewing correspondence with customers and solicitors. • Examine credit notes issued after year-end for provisions that should be made against current period balances. • Examine large customer accounts individually and compare to the previous year's balances. • For a sample of old debts on the aged trial balance, obtain further information regarding their recoverability by discussions with management and review of customer correspondence. • For a sample of prepayments from the prepayments' listing, recalculate the amount prepaid to ensure that it has been accurately calculated.
CUT-OFF	• For a sample of sales invoices around the year-end, inspect the dates and compare with the dates of dispatch and the dates recorded in the ledger for application of correct cut-off. • For sales returns, select a sample of returns documentation around the year-end and trace to the related credit entries. • Perform analytical procedures on sales returns, comparing the ratio of sales returns to sales. • Review material after-date invoices, credit notes and adjustments and ensure that they are recorded correctly in the relevant financial period.
CLASSIFICATION	• Take a sample of sales invoices and examine for proper classification into revenue accounts.
ACCURACY	• For a sample of sales invoices, compare the prices and terms to the authorised price list and terms of trade documentation. • Test whether discounts have been properly applied by recalculating them for a sample of invoices. • Test the correct calculation of tax on a sample of invoices.

AUDIT PLAN-DEBTORS

OCCURRENCE	• For a sample of sales transactions recorded in the ledger, vouch the sales invoice back to customer orders and dispatch documentation.
OCCURRENCE AND RIGHTS AND OBLIGATIONS	• Determine, through discussion with management, whether any debtors have been pledged, assigned or discounted and whether such items require disclosure in the financial statements.
CLASSIFICATION AND UNDERSTANDABILITY	• Review the aged analysis of debtors for any large credits, non-trade debtors and long-term debtors and consider whether such items require separate disclosure. • Read the disclosure notes relevant to debtors in the draft financial statements and review for understandability.
ACCURACY AND VALUATION	• Read the disclosure notes to ensure the information is accurate and properly presented at the appropriate amounts.