

## Instructional / Teaching Case

# Tangible Corporation: A Receivables Audit Case

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## Abstract

*The aim of this teaching case is to provide students with an opportunity to become conversant with the audit procedures relating to an audit of the accounts receivable. In order to achieve the learning outcomes, the case presented is designed to focus on the basic issues that relate to the documentation likely to be involved in the receivables audit. The paper provides some guidance on the conducting of the case and the assessment of the student learning outcomes.*

*Key words: Receivables audit; audit procedures; audit work-papers.*

JEL Classification: I21  
Psycl NFO Classification: 2227; 3530  
FoR Code: 1301; 1501  
ERA Journal ID#: 35696

## Introduction

This case requires students to apply auditing concepts and techniques to multiple receivables accounts of a fictitious company. The case is designed to help students enhance their auditing, critical thinking, and decision-making skills as they perform audit procedures on receivables accounts (e.g. account receivable, interest receivable, note receivable), document the procedures, and the outcome of the procedures, in a manner similar to what practitioners would do. The required procedures include an analysis for the adequacy of the allowance for doubtful account, preparation of confirmation letter, review of receivables related agreements, and audit adjustments for any student identified misstatements.

## Case Learning Objectives

The learning outcomes are expressed in the following terms:

1. Recall **the meaning of management’s assertions, audit objectives, and audit terminologies**.
2. Improve their understanding of the **relationship between management’s financial statement assertions, audit objectives, and audit procedures**.
3. Enhance their ability to determine and utilize the appropriate audit approach (that is substantive tests of details or analytical procedures) in the audit of receivables.
4. Enhance their ability to examine relevant information from several sources, to provide evidence regarding the fair presentation of receivables account balances.
5. Create audit workpapers by documenting the audit procedures performed, and the outcome of those procedures, based on the **relationship between management’s assertions, audit objectives, and audit procedures**.
6. Enhance their decision-making skills through the exercise of professional judgment in evaluating information, materiality, the need for audit adjustments, and concluding on the fair presentation of the accounts audited.

## The Case

Sam **Doe (“You”)** is a new staff auditor in DEKP CPAs (**“DEKP”**), a mid-sized CPA firm in Greensboro, North Carolina. You started working in DEKP in June 2017. From October to December 2017, you were part of the audit team that performed the third quarter review, and the interim audit procedures for the annual audit of Tangible Corporation (**“Tangible”**), a family-owned company, located in Burlington, North Carolina. Tangible generates about half a billion dollars annually in revenue through the sale of fasteners to hardware stores. DEKP has audited Tangible for five years, and issued unmodified opinion in the prior years’ audits. It is now 2018, and you are excited about starting your first busy season auditing Tangible.

You were required to attend a two-hour training in the DEKP Greensboro office, on Friday, January 19, 2018. The training was on the new time reporting software that DEKP will implement in February. While you were in training, you received the e-mail below from Yung Lee (the audit senior). You have worked with Yung since October 2017.

*Email from Audit Senior*

From: Yung Lee  
 To: Sam Doe  
 Date: Friday, January 19, 2018  
 Time: 9:15 am  
 Subject: 2017 Audit – Tangible Corporation

Hello Sam,

I hope the training is going well. We are making progress on the receivables section. As discussed, instead of driving to Burlington after the training, just work from the office.

In the attached excel file (Attachment 1) are the receivables leadsheet and the accounts receivable aging schedule (AR aging schedule). Kim Bower (Controller) e-mailed the AR aging schedule to me. I just copied and pasted it on the excel workbook with the leadsheet, to minimize the number of work papers. I glanced through the AR aging schedule, and noted some interesting things: a customer named CEO - A.M, and a customer with a credit balance. According to Kim, CEO - A.M is Aaron Moore, Tangible **Corporation's CEO**. Information about this receivable is in the attached note agreement (see Attachment 2). Pay attention to these.

I indexed the note agreement as '**Permanent file (PF) 50,**' and added it to the permanent files<sup>1</sup> section in the audit binder. So, no need to make it a work paper. However, read it, and use the information therein, as necessary, for the audit procedures. Attached also is the line of credit agreement (see Attachment 3). The agreement is already in the permanent files section from prior years' audits. Read it, and use the information therein, as necessary, for the audit procedures.

Attached also is the subsequent year-to-date (YTD) cash receipts report (see Attachment 4) from Kim. I verified all the pertinent information on the report (e.g. dates, customers, and amounts) using the deposit slips and remittance advices. The deposit slips are for FirstEco bank (Checking account number ending in \*6734). All the information is correct. Document these procedures on your receivables workpaper, as you use the subsequent cash receipts information for the applicable audit procedure(s). Since you will be documenting the tests in the workpaper, sign off on them in the audit program. I will sign off too when you complete the work.

As you recall, earlier in the month, Wai Wahy (*an audit staff*) sampled AR using the accounts receivables listing. Wai indexed the sampling workpaper<sup>2</sup> as C-04 and signed off on the procedure in the audit program. Wai had Jade (the intern) prepare and send the AR confirmation letters for the sampled items. Jade failed to send one of the confirmation letters. We received all the confirmation letters sent, and none had an exception. Wai indexed the confirmation letters<sup>2</sup> using C-05-01 to C-05-10, and reserved C-05-07 index for the confirmation letter not sent. Wai documented the testing in the attached AR aging, referenced them in the audit program, and signed off on the applicable procedures. Both Wai and Jade are now on another client, but they will return to Tangible by month end. Prepare and send the outstanding confirmation letter to L. **Lemp. The customer's information is as follows: L. Lemp Company, 1267 Valley Street, Pepper Pike, Ohio 44123. Attention: Accounts payable.**

<sup>1</sup> Permanent files contain documents that provide ongoing reference and are applicable to past, current, and future audits of a client.

<sup>2</sup> The actual workpaper is not included in the case. The absence of the workpaper does not affect the completion of the case. Use the workpaper reference, as necessary, while performing the audit process.

The 'other receivable' account is a salary advance (*employee loan*) to Donald Huff (the IT staff). I looked through our third quarter review binder, and noted Donald paid off the balance in October 2017. I observed the cancelled check. Here is the check and receipt information: Check # 3356 dated October 12, 2017 **with a memo** "payoff of salary advance," and cash receipt # 98976 dated October 13, 2017. Use this information for your audit documentation. Tangible recorded the payment as revenue. Please fix this, and sign off on the audit program, as you perform the procedures.

Attached also are some prior year workpapers. Review and use them as guides.

Below is a listing of the attachments to this e-mail:

- Attachment 1 – Leadsheet and AR aging schedule
- Attachment 2 – Promissory note agreement
- Attachment 3 – Revolving Line of Credit Agreement
- Attachment 4 – Cash Receipts Report
- Attachment 5 – Audit Program for Receivables
- Attachment 6 – Blank confirmation letter on **client's letter headed paper**
- Attachment 7 – A prior year confirmation letter
- Attachment 8 – Prior year audit program
- Attachment 9 – Prior year leadsheet, AR and audit adjustment workpapers.

Yung Lee, CPA, CFE  
 Audit Senior  
 DEKP CPAs  
 1000 Clarke Street  
 Greensboro, NC, 98765  
 336-123-4567  
 ylee@DEKP.com

## Additional Client and Audit-Related Information

Use the information below, as necessary, while performing the receivables audit procedures.

- a) Based on a historical analysis of the payment pattern of their customers, Tangible records allowance for at least the total of accounts receivables greater than 60 days, and writes off accounts outstanding for greater than 120 days.
- b) Tangible applies customer payments received to older AR balances first and then to newer balances. Tangible states this policy in all invoices sent to customers.
- c) According to Kim Bower, Tangible did not write off any accounts receivables in 2017. Wai tested journal entries in workpaper A-06<sup>2</sup>. From the tests performed, Wai did not identify any written off accounts receivables in 2017.
- d) There was no activity in the line of credit account in 2017. This makes it three years with no activity in that account. The confirmation letter to FirstEco bank (workpaper Q-05)<sup>2</sup> indicates a zero balance and zero activity in 2017.
- e) Tangible makes a daily deposit of all receipts, and accepts only checks and cards.
- f) Audit materiality is \$10 million and de Minimis (*clearly trivial threshold*) is \$10,000.
- g) All prior year balances agree to the audited balances in the 2016 financial statements.
- h) The risk of material misstatement for receivables is moderate. Risk assessment is in workpaper AP-03<sup>2</sup>.
- i) Tangible reviews and makes all proposed audit adjustments irrespective of materiality.

## Case Requirements and Instructions

1. Prepare the outstanding confirmation letter using the template in Attachment 6, and submit to your instructor for approval [*your instructor acts as your client (Kim Bower) and your client's customer (L. Lemp)*]. NOTE: Sampling is not the focus of this case. You are not required to perform any sampling.
2. Using the documents provided and the information in Yung's e-mail, perform the procedures outlined in the audit program (see Attachment 5). The leadsheet and the accounts receivable aging schedule should be part of your work papers. Use the workpaper indexes noted, when applicable, even if the actual workpaper is not included.
3. If you identify misstatements, propose audit adjustments.
4. Index all workpapers. Use the format "C-XX," where "XX" represent numbers.

### Deliverables

1. Submit separate word files for the confirmation letter and the audit program.
2. Submit an excel file with the leadsheet, the accounts receivables aging schedule, and any other work papers (e.g., proposed audit adjustments), on separate sheets.

## Attachment 1

### Leadsheet and AR Aging Schedule

Tangible Corporation Receivables Leadsheet For Year Ended December 31, 2017									
Acct #	Account Title	Audited Balance 12/31/2016	Ref.	Unaudited Balance 12/31/2017	Ref.	Proposed Journal Entries (PJE)	Ref.	Audited Balance 12/31/2017	Ref.
1200	Accounts Receivable	\$ 230,675,893.00		\$ 386,874,652.00		\$ -		\$ 386,874,652.00	
1201	Allowance for Doubtful Accour	\$ (39,467,935.00)		\$ (59,859,610.00)		\$ -		\$ (59,859,610.00)	
1205	Note Receivable	\$ -		\$ -		\$ -		\$ -	
1210	Note Receivable - Current	\$ -		\$ -		\$ -		\$ -	
1215	Interest Receivable	\$ -		\$ -		\$ -		\$ -	
1220	Other Receivable	\$ 12,000.00		\$ 12,000.00		\$ -		\$ 12,000.00	
		\$ 191,219,958.00		\$ 327,027,042.00		\$ -		\$ 327,027,042.00	
<b>Excerpts from other lead sheets:</b>									
2300	Accounts Payable	\$ 14,579,200.00		\$ 15,678,392.00		\$ -		\$ 15,678,392.00	
3003	Line of Credit	\$ -		\$ -		\$ -		\$ -	
5005	Revenue	\$ 463,876,540.00		\$ 578,359,820.00		\$ -		\$ 578,359,820.00	
5550	Interest Revenue	\$ -		\$ -		\$ -		\$ -	
5660	Bad debt expense	\$ 17,396,870.00		\$ 20,391,675.00		\$ -		\$ 20,391,675.00	

C-02 Tangible Corporation Accounts Receivables Aging Schedule For Year Ended December 31, 2017									
Customers	2016 Balances	2017 Balances	Current <30 Days	30-60 Days	Past Due 60-90 Days	90 -120 Days	Total		
A. Abu	\$ 5,874,563.00	\$ 6,342,518.00	\$ 6,342,518.00	\$ -	\$ -	\$ -	\$ 6,342,518.00		
B. Boxton	6,743,392.00	53,621,821.00	32,563,781.00	20,000,000.00	-	1,058,040.00	53,621,821.00	Confirmed. No exception. C-05-01	
C. Cupid	3,674,927.00	746,291.00	46,291.00	375,000.00	102,778.00	222,222.00	746,291.00		
CEO - A.M	-	5,000,000.00	-	-	5,000,000.00	-	5,000,000.00		
D. Danley	2,739,862.00	6,374,921.00	-	-	6,374,921.00	-	6,374,921.00	Confirmed. No exception. C-05-02	
E. Eggos	478,663.00	836,973.00	836,973.00	-	-	-	836,973.00		
F. Franton	2,563,784.00	7,193,973.00	-	7,193,973.00	-	-	7,193,973.00	Confirmed. No exception. C-05-03	
G. Gasten	2,740,891.00	6,478,293.00	6,478,293.00	-	-	-	6,478,293.00		
H. Hamley	46,387,293.00	31,265,930.00	31,265,930.00	-	-	-	31,265,930.00	Confirmed. No exception. C-05-04	
I. Iqiot	7,453,922.00	5,542,653.00	5,542,653.00	1,000,000.00	-	-	5,542,653.00		
J. Jompton	81,376,523.00	77,763,921.00	77,763,921.00	-	-	-	77,763,921.00	Confirmed. No exception. C-05-05	
K. Kooto	637,482.00	543,894.00	543,894.00	-	-	-	543,894.00	Confirmed. No exception. C-05-06	
L. Lemp	8,463,282.00	6,638,810.00	6,638,810.00	-	-	-	6,638,810.00	To be confirmed	
M. Mentie	324,536.00	4,357,201.00	4,357,201.00	-	-	-	4,357,201.00		
N. Noney	23,415.00	534,267.00	-	-	-	534,267.00	534,267.00		
O. Oplon	5,000.00	(27,000.00)	(27,000.00)	-	-	-	(27,000.00)		
P. Panket	2,324,516.00	2,649,387.00	-	1,524,378.00	-	1,125,009.00	2,649,387.00		
Q. Quimp	76,493.00	4,432,453.00	1,324,536.00	2,256,471.00	851,446.00	-	4,432,453.00		
R. Raste	667,253.00	547,332.00	-	-	-	547,332.00	547,332.00		
S. Sabley	9,872,345.00	8,234,526.00	8,234,526.00	-	-	-	8,234,526.00	Confirmed. No exception. C-05-08	
T. Tukyuu	2,637,842.00	198,263.00	98,263.00	55,000.00	45,000.00	-	198,263.00		
U. Utey	2,334,921.00	1,173,452.00	-	-	1,173,452.00	-	1,173,452.00		
V. Ventuk	500.00	500.00	-	-	-	500.00	500.00		
W. Wreyes	9,003,942.00	500,000.00	500,000.00	-	-	-	500,000.00		
X. Xoley	7,345.00	25,825.00	-	-	25,825.00	-	25,825.00		
Y. Yohenty	34,263,201.00	76,534,356.00	43,526,398.00	23,017,000.00	9,990,958.00	-	76,534,356.00	Confirmed. No exception. C-05-09	
Z. Zamtre	-	79,364,092.00	1,500,000.00	40,063,274.00	32,436,086.00	5,364,732.00	79,364,092.00	Confirmed. No exception. C-05-10	
Total	\$230,675,893.00	\$386,874,652.00	\$226,536,988.00	\$ 95,485,096.00	\$ 56,000,466.00	\$ 8,852,102.00	\$386,874,652.00		

Attachment 2  
*Promissory Note*

PF 50

*Borrower:* Aaron Moore of 55 Shadow Lane, Mebane, NC, 27538 (the "Borrower").

*Lender:* Tangible Corporation of 400 South Kem Drive, Burlington, NC, 27215 (the "Lender").

*Principal Amount:* Five million U.S. dollars (\$5,000,000.00).

1. For value received, the Borrower promises to pay to the Lender at such address as may be provided in writing to the Borrower, the principal sum of \$5,000,000.00, with interest payable on the unpaid principal at the rate of 4.00 percent per annum, calculated yearly.
2. This Note will be repaid in consecutive equal yearly payments, on each October 31<sup>st</sup> commencing next year and continuing until October 31<sup>st</sup>, 2022. Likewise, interest due on the unpaid principal is payable on each October 31<sup>st</sup> commencing next year and continuing until October 31<sup>st</sup>, 2022.
3. At any time, while not in default under this Note, the Borrower may pay the outstanding balance then owed under this Note to the Lender without penalty.
4. Notwithstanding anything to the contrary in this Note, if the Borrower defaults in the performance of any obligation under this Note, then the Lender may declare the principal amount owed and interest due under this Note, at that time to be immediately due and payable.
5. All costs and expenses including, and without limitation, the complete legal costs incurred by the Lender in enforcing this Note as a result of any default by the Borrower, will be added to the principal then outstanding and will immediately be paid by the Borrower.
6. The board of directors of Tangible Corporation approved the terms of this Promissory Note.

In witness whereof the parties duly affixed their signatures on this 31<sup>st</sup> day of October 2017.

Borrower:

Aaron Moore 10/31/2017  
Aaron Moore [A. M.], CEO  
Tangible Corporation

Lender:

Smith Gordon 10/31/2017  
Smith Gordon, CFO  
Tangible Corporation

Joseph Walleye 10/31/2017  
Chair, Finance Committee  
Tangible Corporation

### Attachment 3 Revolving Line of Credit Agreement

PF 39

*Borrower:* Tangible Corporation of 400 South Kem Drive, Burlington, NC, 27215.

*Lender:* FirstEco Bank of 78 River Street, Mebane, NC, 26785.

*Amount:* \$200,000,000 Revolving Line of Credit.

*Collateral:* First lien on the **Borrower's** trade receivable accounts.

*Interest Rate:* One month Libor + 3 percent with a 5 percent floor, on outstanding balances.

*Payments:* Payments (principal and accrued interest) are due on the first of each month. The minimum required payment is 5 percent of the outstanding balance.

*Reporting Requirements:*

- 1) Annual audited financial statements and covenant compliance certificate due within 90 days of fiscal year end.
- 2) Quarterly reviewed financial statements and covenant compliance certificate due within 45 days of each fiscal quarter end.
- 3) Quarterly detailed account receivable aging reconciled to the general ledger balances.
- 4) **Borrower's annual federal tax returns due within 30 days of filing.**

*Covenants:*

- 1) Borrower shall maintain a tangible net worth of not less than \$100,000,000 measured quarterly, as total assets less total liabilities, intangibles, and loans to affiliates.
- 2) Borrower shall maintain a debt to tangible net worth of less than 5.0 measured quarterly and defined as total liabilities divided by tangible net worth.
- 3) Borrower shall maintain a minimum debt service coverage ratio of 2.0, measured quarterly and defined as Earnings before Interest, Depreciation and Amortization less distributions and withdrawals, divided by the current portion of debt plus interest.

*Additional Requirements:*

- 1) Borrower shall maintain with the Bank its primary operating account.
- 2) Approval of additional indebtedness by FirstEco Bank.
- 3) Maintenance of credit insurance policy issued by FirstEco Bank.

In witness whereof the parties duly affixed their signatures on this 1<sup>st</sup> day of July 2014.

Borrower:

Smith Gordon 7/1/2014

Smith Gordon, CFO

For: Tangible Corporation (Borrower)

Lender:

Andrew Okike 7/1/2014

Andrew Okike, Commercial Loan Specialist

FirstEco Bank, Mebane, NC.



Audit Objectives	Audit Procedures	Performed by	Workpaper Index
D, E, [B]	1. Obtain and test the mathematical accuracy of the accounts receivable aging schedule <sup>3</sup> , and agree to the unaudited balance in the leadsheet. Reclass the following if included in accounts receivable balance: (a) credit balances, (b) note receivable(s), and (c) employees and related party receivable(s).		
A, E, [B]	2. Sample accounts receivable balances, and send confirmations for the sampled items. Retain all confirmations.	W.W	C-04. C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-08. C-05-09, C-05-10.
A, E, [B]	3. Investigate any exceptions in the confirmations, and document how the exceptions were resolved.	W.W	C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-08. C-05-09, C-05-10.
C	4. Test the adequacy of the allowance for doubtful accounts:		
	a. Obtain a report of subsequent receipts. Test and document the subsequent receipts by examining remittance advices and deposit slips.		
	b. If uncollected accounts remain significant, evaluate the adequacy of the allowance for doubtful accounts receivables.		
D	5. Determine if there are pledged receivables, and document accordingly.		
E	6. If receivables include note receivable(s), ensure current portions are properly classified.		
A, E, [B]	7. If receivables include note receivable(s), test the reasonableness of interest earned.		
D, [A], [B]	8. Determine if related party receivables exist, and perform the following:		
	a. Determine the nature of the related party receivables, and verify that the related party receivables are properly authorized.		
	b. Determine the balance of the related party receivables and verify the balance is properly recorded.		
C	9. Document the <b>understanding of any 'other receivable account'</b> , verify the balance and evaluate collectability.		
Conclusion	We performed procedures sufficient to achieve the audit objectives for receivables, and the results are documented in the stated workpapers.		

<sup>3</sup> Though not required, it is a usual procedure to test the accuracy of the aging schedule. This requires examining documents (e.g. shipping documents) for a sample of amounts in each aging category. For this case, assume aging categories are accurate.

Attachment 6  
*Confirmation Letter Template*

Tangible Corporation  
Address: 400 South Kem Drive, Burlington, NC 27215. Tel: 336-888-0909

[Recipient]  
[Address]

Date: \_\_\_\_\_

Our auditors, \_\_\_\_\_, are auditing our financial statements. The audit includes direct verification **of our customers' balances**. Please confirm the balance due Tangible Corporation as of \_\_\_\_\_, which our records show is \_\_\_\_\_.

Please indicate in the memo below if the amount agrees with your records. If differences exist, please provide any information that will assist our auditors in reconciling the differences.

Please mail your reply directly to \_\_\_\_\_, \_\_\_\_\_ in the enclosed return envelope. Please do not mail any payments on this balance to our auditors.

Very truly yours,

\_\_\_\_\_  
[Name]  
[Position]  
[Company]

-----  
To: \_\_\_\_\_

The balance of \_\_\_\_\_ due to Tangible Corporation as of \_\_\_\_\_, is correct with the following exceptions, (if any):

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Attachment 7  
Prior Year Confirmation Letter

Tangible Corporation  
Address: 400 South Kem Drive, Burlington, NC 27215. Tel: 336-888-0909

C-05-01

Prepared by: Wai Wahy (1/25/2017)  
Reviewed by: Yung Lee (1/30/2017)

A. Akorm Company  
46 Providence Street  
Alexandria, MD 33568  
Attn: Accounts Payable

January 16, 2017

Our auditors, DEKP CPAs, are auditing our financial statements. The audit includes direct verification of our customers' balances. Please confirm the balance due Tangible Corporation as of December 31, 2016, which our records show is \$5,874,563.

Please indicate in the memo below if the amount agrees with your records. If differences exist, please provide any information that will assist our auditors in reconciling the differences.

Mail your reply directly to DEKP CPAs, 1000 Clarke Street, Greensboro, NC 98765, in the enclosed return envelope. Please do NOT mail any payments on this balance to our auditors.

Very truly yours,  
Kim Bower  
Kim Bower  
Controller  
Tangible Corporation

-----  
To: DEKP CPAs

C-02. No exception.

The balance of \$5,874,563 due to Tangible Corporation as of December 31, 2016, is correct with the following exceptions, (if any):

*None. Amount is correct.*

Signature: M. Sullivan  
Name: Moses Sullivan  
Title: Director, Accounts Department, A. Akorm Company  
Date: January 20, 2017

## Attachment 8

### Audit program for Receivables

C-05-07

Prepared by: Wai Wahy (1/25/2017)  
Reviewed by: Yung Lee (1/30/2017)

Company: Tangible CorporationBalance Sheet Date: December 31, 2016

#### Financial Statement Assertions

E/O	Existence or occurrence	V/A	Valuation or allocation
C	Completeness	P/D	Presentation and disclosure
R/O	Rights and obligations		

#### Audit Objectives\*

- A. Receivables are obligations owed to the company at the balance sheet date (assertions E/O, R/O, and V/A).
- B. Receivables include all amounts owed to the company at the balance sheet date (assertion C).
- C. The allowance for doubtful accounts is adequate, but not excessive (assertions V/A).
- D. Pledged receivables are properly disclosed (assertions R/O and P/D).
- E. Receivables are properly classified (assertion P/D).

\* An audit objective in bracket means the procedures performed only partially achieves that objective.

Audit Objectives	Audit Procedures	Performed by	Work paper Index
D, E, [B]	1. Obtain and test the mathematical accuracy of the accounts receivable aging schedule and agree to the unaudited balance in the leadsheet. Reclass the following if included in accounts receivable balance: (a) credit balances, (b) note receivable(s), and (c) employee receivable(s).	W.W	C-02 & C-03
A, E, [B]	2. Sample accounts receivable balances, and send confirmations for the sampled items. Retain all confirmations.	W.W	C-04. C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-07, C-05-08
A, E, [B]	3. Investigate any exceptions in the confirmations, and document how the exceptions were resolved.	W.W	C-02. C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-07, C-05-08.
C	4. Test the adequacy of the allowance for doubtful account:	W.W	
	a. Obtain a report of subsequent receipts. Test and document the subsequent receipts by examining deposit slips and remittance advices.	W.W	C-02
	b. If uncollected accounts remain significant, evaluate the adequacy of the allowance for doubtful accounts receivables.	W.W	C-02
D	5. Determine if there are pledged receivables, and document accordingly.	W.W	C-02
C	6. Document the understanding of any 'other receivable account', verify the balance and evaluate collectability.	W.W	C-02 & C-03
Conclusion	We performed procedures sufficient to achieve the audit objectives for receivables, and the results are documented in the stated workpapers.	W.W	C-01

Attachment 9 C-01 Lead Sheet

C-01										Prepared by: Wai Wahy (1/25/2017)
Tangible Corporation										Reviewed by: Yung Lee (1/30/2017)
Receivables Lead Sheet										
December 31, 2016										
<b>Procedures:</b>	See audit program (w/p C-00). Risk of material misstatement is moderate (w/p AP-03).									
<b>Conclusion:</b>	The balances tested herein appear to be fairly stated based on procedures performed in w/ps C-00 to C-05-10.									
			Audited Balance		Unaudited Balance		Proposed Adjusting Journal Entries		Audited Balance	
	Acct #	Account Title	12/31/2015	Ref	12/31/2016	Ref	(PAJE)	Ref	12/31/2016	Ref
								C-03		
	1200	Accounts Receivable	\$205,896,540.00	PY	\$ 230,663,893.00	C-02	\$ 12,000.00	PAJE #1	\$230,675,893.00	C-02
	1201	Allowance for Doubtful Account	\$(37,755,420.00)	PY	\$ (39,467,935.00)	C-02	\$ -		\$(39,467,935.00)	C-02
	1220	Other Receivables	\$ 24,000.00	PY	\$ 24,000.00	C-02	\$ (12,000.00)	PAJE #1	\$ 12,000.00	C-02
			\$168,165,120.00		\$ 191,219,958.00		\$ -		\$191,219,958.00	
			Footed		Footed		Footed		Footed	
	NOTES:									
	PY	- Audited prior year balance								
	w/p	- Workpaper								

Attachment 9 C-02 AR Aging

C-02	Tangible Corporation								Prepared by:	Wai Wahy (1/25/2017)		
Audit Program	Accounts Receivables Aging Schedule								Reviewed by:	Yung Lee (1/30/2017)		
Procedur	For Year Ended December 31, 2016											
	PBC - Aging provided by controller (Kim Bower)											
		2015	2016	Current	Past Due			Total	Recalc. Total	Procedures 2 & 3	Subsequent receipt	Procedure 4a
	Customers	Balances	Balances	<30 Days	30-60 Days	60-90 Days	90-120 Days					Testing
	A. Abu	\$ 10,657,840.00	\$ 5,874,563.00	\$ 5,874,563.00	\$ -	\$ -	\$ -	\$ 5,874,563.00	\$ 5,874,563.00	Confirmed. No exception. C-0E	\$ -	
	B. Boxton	8,574,398.00	6,743,392.00	6,743,392.00	-	-	-	6,743,392.00	6,743,392.00	Confirmed. No exception. C-0E	(5,000,000.00)	Traced without exception to the remittance advice, and deposit slip for 1/3/17.
	C. Cupid	7,651,245.00	3,674,927.00	3,000,000.00	674,927.00	-	-	3,674,927.00	3,674,927.00		(3,674,927.00)	Traced without exception to the remittance advice, and deposit slip for 1/3/17.
	D. Danley	3,960,750.00	2,739,862.00	2,739,862.00	-	-	-	2,739,862.00	2,739,862.00		-	
	E. Eggs	423,650.00	478,663.00	-	478,663.00	-	-	478,663.00	478,663.00		-	
	F. Franton	3,500,000.00	2,563,784.00	1,563,784.00	1,000,000.00	-	-	2,563,784.00	2,563,784.00		(2,563,784.00)	Traced without exception to the remittance advice, and deposit slip for 1/7/17.
	G. Gasten	2,000,000.00	2,740,891.00	2,300,000.00	-	-	440,891.00	2,740,891.00	2,740,891.00		(2,740,891.00)	Traced without exception to the remittance advice, and deposit slip for 1/9/17.
	H. Hamley	35,000,000.00	46,387,293.00	34,387,293.00	-	12,000,000.00	-	46,387,293.00	46,387,293.00	Confirmed. No exception. C-0E	(46,387,293.00)	Traced without exception to the remittance advice, and deposit slip for 1/9/17.
	I. Iqiot	6,000,000.00	7,453,922.00	5,453,922.00	2,000,000.00	-	-	7,453,922.00	7,453,922.00		(4,000,000.00)	Traced without exception to the remittance advice, and deposit slip for 1/10/17.
	J. Jompton	75,914,450.00	81,376,523.00	41,376,523.00	40,000,000.00	-	-	81,376,523.00	81,376,523.00	Confirmed. No exception. C-0E	(40,376,523.00)	Traced without exception to the remittance advice, and deposit slip for 1/11/17.
	K. Koote	342,730.00	637,482.00	-	637,482.00	-	-	637,482.00	637,482.00		-	
	L. Lemp	6,540,850.00	8,463,282.00	8,463,282.00	-	-	-	8,463,282.00	8,463,282.00	Confirmed. No exception. C-0E	(4,638,810.00)	Traced without exception to the remittance advice, and deposit slip for 1/8/17.
	M. Mentle	433,650.00	324,536.00	324,536.00	-	-	-	324,536.00	324,536.00		-	
	N. Noney	7,654.00	23,415.00	-	-	23,415.00	-	23,415.00	23,415.00		-	
	O. Oplon	-	5,000.00	-	-	-	5,000.00	5,000.00	5,000.00		-	
	P. Panket	1,267,865.00	2,324,516.00	1,500,000.00	500,000.00	324,516.00	-	2,324,516.00	2,324,516.00		(2,324,516.00)	Traced without exception to the remittance advice, and deposit slip for 1/3/17.
	Q. Quimp	88,000.00	76,493.00	-	76,493.00	-	-	76,493.00	76,493.00		-	
	R. Raste	230,760.00	667,253.00	-	-	-	667,253.00	667,253.00	667,253.00		-	
	S. Sabley	10,543,980.00	9,872,345.00	7,872,345.00	-	2,000,000.00	-	9,872,345.00	9,872,345.00	Confirmed. No exception. C-0E	(6,872,345.00)	Traced without exception to the remittance advice, and deposit slip for 1/6/17.
	T. Tukyu	987,654.00	2,637,842.00	1,637,842.00	1,000,000.00	-	-	2,637,842.00	2,637,842.00		(1,000,000.00)	Traced without exception to the remittance advice, and deposit slip for 1/11/17.
	U. Utey	1,400,000.00	2,334,921.00	2,334,921.00	-	-	-	2,334,921.00	2,334,921.00		-	
	V. Ventuk	-	500.00	-	-	-	500.00	500.00	500.00		(500.00)	Traced without exception to the remittance advice, and deposit slip for 1/6/17.
	W. Wreyes	7,500,000.00	9,003,942.00	7,000,000.00	2,003,942.00	-	-	9,003,942.00	9,003,942.00	Confirmed. No exception. C-0E	(9,003,942.00)	Traced without exception to the remittance advice, and deposit slip for 1/12/17.
	X. Xoley	5,230.00	7,345.00	-	7,345.00	-	-	7,345.00	7,345.00		(7,345.00)	Traced without exception to the remittance advice, and deposit slip for 1/14/17.
	Y. Yohenty	22,865,834.00	34,263,201.00	10,263,201.00	-	24,000,000.00	-	34,263,201.00	34,263,201.00	Confirmed. No exception. C-0E	(30,000,000.00)	Traced without exception to the remittance advice, and deposit slip for 1/10/17.
	Other	-	(12,000.00)	-	-	-	-	(12,000.00)	PAJE #1		-	
	Total	\$ 205,896,540.00	\$230,663,893.00	\$142,835,466.00	\$ 48,378,852.00	\$38,347,931.00	\$1,113,644.00	\$ 230,663,893.00	\$ 230,675,893.00		(158,590,876.00)	
1	Recalculated total:	\$ 205,896,540.00	\$230,663,893.00	\$142,835,466.00	\$ 48,378,852.00	\$38,347,931.00	\$1,113,644.00	\$ 230,663,893.00	C-01	Post YE outstanding balance	72,085,017.00	<Calculated
		PY	C-01							Ratio of AR received:	68.75%	<Calculated
1	Adjustments & Reclasses:											As of 1/15/17, Tangible Corporation has collected 68.75% of outstanding customer balances.
	PAJE #1 (Other)		\$ 12,000.00	\$ -	\$ -	\$ -	\$ -	12,000.00	C-03			
	Adjusted total:	\$ 205,896,540.00	\$230,675,893.00	\$142,835,466.00	\$ 48,378,852.00	\$38,347,931.00	\$1,113,644.00	\$ 230,675,893.00	C-01			
	AR Aging percentage			61.92%	20.97%	16.62%	0.48%					

Attachment 9 C-02 AR Aging continued

4a Cont'd	Subsequent receipts report as at January 15, 2017 was obtained from the Controller. All receipts were traced to remittance advices and deposit slips. See testing above.					
4b	Allowance to AR balance ratio:		PY	CY		
	Allowance		\$ 37,755,420.00	\$ 39,467,935.00	C-01	
	Audited AR Bal.		205,896,540.00	230,663,893.00	C-01	
	Ratio		18.34%	17.11%	Marginal decrease of	1.23% < Calculated
	About 69% (see calculation above) of AR were collected subsequent to YE. The receipts are for 12/31 outstanding invoices, and apply mostly to aged accounts. Client's policy is to record an allowance for at least the total of AR balances greater than 60 days. Accounts are written off after 120 days. \$5,230 owed by customer X was written off during the year per Kim Bower (Controller). No other write offs noted per journal entry testing performed in w/p A-06.					
	Client's Allowance	\$	39,467,935.00	C-01		
	Auditor's expectation:					
	AR: Greater than 60 days	\$	39,461,575.00	< Calculated from aging above.		
	Difference	\$	(6,360.00)	Allowance exceeds required minimum. Difference is also below de minimus.		
	AR allowance seems OK based on compliance with policy, amount of subsequent AR receipts as at January 15, 2017, and the aging of the outstanding AR balance after applying the subsequent receipts.					
5	Accounts receivables are collaterals for the revolving line of credit from FirstEco bank. The agreement was signed on July 1, 2014. See PF 39. As at December, 31, 2016, there is a zero balance on the LOC. See Q-05 for LOC balance confirmation. Therefore, Tangible Corporation has rights to accounts receivables.					
7	In the other receivables account was recorded a salary advance to an employee, Donald Huff. \$12,000 was paid in the current year, (Check # 2890 dated October 20, 2016). The cash receipt number is 87657, dated October 20, 2016. Client initially recorded the payment in the AR account. PAJE #1 (C-03) was proposed to correct the misstatement. There is a \$12,000 balance at year end (C-01).					

Attachment 9 C-03 Adjustment

C-03					Prepared by:	Wai Wahy (1/25/2017)
Tangible Corporation					Reviewed by:	Yung Lee (1/30/2017)
Receivables Accounts						
December 31, 2016						
Proposed journal entries:						
	Ref.	Work-paper	Account #	Accounts	Debit	Credit
	PAJE #1	C-01 and C-02	1200	Accounts Receivable	\$ 12,000.00	
			1220	Other Receivables		\$ 12,000.00
	To record D. Huff's payment for salary advance in the proper account.					

## Case Learning Objectives and Implementation Guidance

This case is intended to enhance students auditing, critical thinking, and decision-making skills through the performance and documentation of a series of audit procedures typical in the audit of receivables accounts<sup>4</sup>. The case, which reflects real world audit tasks, requires students to audit receivables accounts of a fictitious company. The case provides a broad coverage of the substantive tests of receivables accounts, and while some audit textbooks have mini-cases on receivables, the cases are not as comprehensive. A principal benefit of this case is that it provides an opportunity for students to perform audit tasks very similar to real-world auditing. Students engage in active learning by performing the procedures and applying concepts, they learned in the auditing and financial accounting classes (Prince, 2004; Bell & Kozlowski, 2008; Carter & Jones, 2011). This increases their motivation, and they gain lasting learning experiences (Bonwell & Eison, 1991; Salemi, 2002; Loeb, 2015).

### Case Learning Objectives

The learning objectives are anchored on Bloom's (1956) taxonomy of learning. Below is the mapping of the learning objectives and case requirements to Bloom's taxonomy.

Table 1  
*Mapping of Learning Objectives*

<i>Bloom's Taxonomy</i>	<i>Learning Objectives</i>	<i>Audit Procedures</i>
Knowledge	LO 1: Recall the meaning of management's assertions, audit objectives, and audit terminologies.	All
Comprehension	LO 2: Improve their understanding of the relationship between management's financial statement assertions, audit objectives, and audit procedures.	All
Application	LO 3: Enhance their ability to determine and utilize the appropriate audit approach (that is substantive tests of details or analytical procedures) in the audit of receivables.	2, 4, 7
Analysis	LO 4: Enhance their ability to examine relevant information from several sources, to provide evidence regarding the fair presentation of receivables-related account balances.	5, 6, 8, 9
Synthesis	LO 5: Create audit workpapers by documenting the audit procedures performed, and the outcome of the procedures, based on the relationship between management's assertions, audit objectives, and audit procedures.	All
Evaluation	LO 6: Enhance their decision-making skills through the exercise of professional judgment in evaluating information, materiality, the need for audit adjustments, and concluding on the fair presentation of the accounts audited.	1, 3, 4, 6, 7, and Conclusion

<sup>4</sup> Cases addressing receivables mostly focus on accounts receivables. For instance, Cottell (2010) addresses accounts receivables, asset impairment and other accounting concepts from an operational perspective, involving an acquisition. Gujarathi and McQuade (2009), based on a fictional auto dealer company, addresses accounts receivable collection, allowance for doubtful accounts and the implication for earnings management. Their case focuses on operations and reporting issues. Brown, Daugherty, and Persellin (2014), based on the Satyam fraud, addresses the auditors' responsibilities regarding the use of confirmations for audit evidence.

## Implementation Guidance

Two instructors used the case in two undergraduate auditing classes. This case is ideal for accounting students in the auditing course, which is usually a required course in the accounting curriculum (Armitage, 2008), and typically taken during the senior year. This case is suitable as an individual or a group assignment. Instructors provided a brief (about 15 minutes) introduction prior to assigning the case, and they provided feedback after the case submissions. The feedback took about 45 minutes, and on average, students working in pairs reported completing the case in about 15 hours.

**To maximize students' learning experiences, instructors assigned the case after class lectures, and graded assignments (e.g. homework) on relevant topics.** This provided the students with the necessary theoretical framework. The topics include management assertions, audit risk, materiality, audit procedures and evidence, workpaper documentation, revenue cycle including receivables, confirmations, and testing of allowance for doubtful accounts. Since most auditing textbooks cover these topics in the earlier chapters (Armitage, 2008), the instructors recommend assigning the case after mid-semester and allowing about three weeks for the case. While students may not need the entire three weeks, it provides ample time considering students are seniors and may have other academic and career-related commitments.

As stated in the case, the instructor acts as the client, and so, it is recommended that instructors inform students to submit the prepared confirmation letter to their instructor to review and sign, as the client, before the entire case is submitted. Further, the instructor acts as **the client's customer (L. Lemp) with the unconfirmed accounts** receivable balance. To streamline the process, instructors can approve (*sign as the client*) correct confirmation letters, and confirm (*as the client's customer*) the year-end balance at the same time. However, instructors should provide feedback to the students about: (1) the fact that two different parties performed the actions, and (2) that most importantly, the auditors are required to maintain custody of the confirmation letter. That is, auditors send a confirmation letter **directly to a client's customer and** receive it **directly from the client's customer.** This custody requirement applies to hardcopy or electronic confirmations.

The case intentionally does not provide some workpapers (specifically, C-04, C-05-01/02/03/04/05/06/08/09/10, AP-03, AP-06, and Q-05). The absence of these workpapers does not affect the ability to complete the case. It is recommended that instructors remind students to only reference such workpapers, as needed, when completing the case, and not be concerned about their content. Including these workpapers to the case will only increase the documents students sift through, without actually adding value to the case.

## Case Feedback

The information here is offered to aid instructors provide feedback. They are:

1. Point allocation.
2. Points to consider sharing during the feedback process.
3. Suggested solutions for the receivables workpapers. They are as follows:
  - a) Appendix 1 shows the completed receivables audit program.
  - b) Appendix 2A shows the prepared confirmation letter **prior to the client's** approval.
  - c) Appendix 2B shows the confirmation letter **with the client's approval and response from client's customer.**
  - d) Appendix 2C shows the confirmation letter with **auditor's** documentations.
  - e) Appendix 3, a MS Excel file, contains the accounts receivables aging schedule, leadsheet, audit adjustments, and documentation of procedures performed.

## Point Allocation

The two instructors shared the point allocation with the students when they assigned the case. Instructors may assign different weights. Grading each case took between 30 - 45 minutes. The grade has two components. The first component, worth 15 percent of the total score, is the deliverables, which lists the expected electronic documents. The second component, worth 85 percent of the total score, lists the minimum requirements<sup>5</sup> for the workpapers submitted as part of the first component.

- A. Expected Tangible Deliverables (15 percent)
  - 1) Completed receivables audit program (3 percent).
  - 2) Receivables leadsheet (2 percent).
  - 3) Prepared confirmation letter<sup>6</sup> (3 percent).
  - 4) Returned confirmation letter<sup>7</sup> (3 percent).
  - 5) Accounts receivable aging schedule (2 percent).
  - 6) Other electronic work paper(s) showing audit procedures performed (2 percent).
  
- B. Minimum Requirements for Documentation (85 percent)
  - 1) Clear understanding of purpose (10 percent).
  - 2) Source of information used in the audit workpapers (10 percent).
  - 3) Indication that accounting records agreed with the financial statements (8 percent).
  - 4) Clear demonstration of work performed including references (9 percent).
  - 5) Any significant findings or issues and how they were resolved (10 percent).
  - 6) Conclusion(s) with respect to relevant financial statement assertions (9 percent).
  - 7) **Basis for auditor's conclusion** (10 percent).
  - 8) Identification of who performed the work (6 percent).
  - 9) Date work was completed (6 percent).
  - 10) Work paper organization (7 percent).

## Points to Consider Sharing During the Feedback Process

In discussing the case, the instructors incorporated the following either to emphasize further their importance, or to provide insight about **practices in 'real world'** auditing.

- 1) Prior year audit workpapers are often available in actual audits, but it is best practice to view them as good starting points. That is, the goal is not to replicate prior year work without the exercise of due care and professional judgment.
- 2) Chain of custody is important. Auditors are required to maintain custody of confirmation letters prior to sending, and they should receive confirmations directly.
- 3) Sam prepared and sent one confirmation, so Sam should sign off too on the audit program (procedures 2 and 3) for procedures relating to sending confirmations.
- 4) It is a good practice to observe and peruse documents before referencing them. By so doing, auditors exercise more care and take better ownership of the process.

<sup>5</sup> The minimum requirements **are based on the United States Public Accounting Oversight Board's (PCAOB) Auditing Standard 1215 on *Audit Documentation*** and the American Institute of Certified Public Accountants' (AICPA) Clarified Statements on Auditing Standards Section 230 – Audit Documentation.

<sup>6</sup> Since the instructor acts as the client, the expectation is that students will submit the confirmation letter to the client for their review and approval (signature) before the entire case is submitted. This relates to audit efficiency and effectiveness, especially since the response on the confirmation letter is unpredictable. As mentioned in the implementation guidance, instructors should communicate this step to students when they introduce the case.

<sup>7</sup> The expectation is that students will submit the **confirmation letter received from the client's customer as part of the completed work**. Students' **realization of** this critical audit step is essential since not including this documentation amounts to missing evidence.

- 5) Students, based on their judgment, may record more allowance for doubtful accounts. This may be acceptable if their justification for doing so is reasonable.
- 6) It is good practice to use formulas in excel, and minimize hard-keyed numbers. Some students may not use formulas consistently.
- 7) Except in rare instances, it is not necessary to make a document already in the permanent file, a current audit workpaper. However, proper referencing is required when information in a permanent file document is used in the **current year's** audit.
- 8) Regarding the credit balance in accounts receivable, it is advisable to discuss with the client and obtain an understanding of the transaction(s) that resulted in the credit balance, when not obvious. Additionally, the auditor may want to know if customers are aware of their credit balances, when the client plans to remit the amounts, or whether the balances will be applied to future transactions. If customers are unaware of their credit balances, it may create an opportunity for fraud.
- 9) Auditors discuss proposed adjustments with their clients. When an adjustment affects other audit sections, it is good practice to communicate that to the responsible audit team member, especially if it is a material adjustment.
- 10) Usually, receivables from employees are not related party transactions, since employees are not in key positions. However, a disclosure note is required to explain the nature of **the "other receivable account," especially** if the balance is significant.
- 11) Auditors should sign off on work they completed. Students may not sign off on all the procedures they perform or they may sign off as the reviewer.

### *Student Feedback*

In both undergraduate auditing courses, students submitted a written case solution that was approximately ten percent of their course grade. The instructors administered an anonymous survey<sup>8</sup> following the completion of the case. Students responded to eleven questions using a seven-point Likert scale, and two open-ended questions asking what they liked and suggestions for improvement. Overall, the feedback was positive. Students in both classes reported that the case required them to think critically and apply their problem-solving skills and professional judgment, as well as apply their knowledge of accounting concepts. Students also reported that the case required them to create audit workpapers, and identify, interpret and apply relevant information. Overall, students found the case a worthwhile learning experience. Table 2 presents the summarized data.

In response to the first open-ended question, student responses were very favorable. Specifically, students liked the realistic nature of the case and the hands-on experience: A student commented, **"It was a very effective and realistic approach to gaining experience on parts of the audit process."** Another student stated, **"It was realistic/ helped me apply class concept to a case."** Students felt it helped prepare them for their future career: One student stated, **"I liked that we were able to see what an audit procedure looked like. This will be very helpful in my internship,"** and another commented, **"I think this is something we should be doing more of in audit since it is actually what we would do at our jobs."**

Students commented on the comprehensiveness of the case, and the required documentation of audit procedures: One student **stated, "I appreciated how detail-oriented and thorough we had to be, and now have a better appreciation for accounting workpapers and source documents."** Another stated, **"I liked learning how workpapers were created, indexed, and later referenced during an audit. I also found the case to be interesting and the initial confirmation process to be extremely realistic."** Another also stated, **"Getting a feel for working with audit documentation."** Students appreciated having the audit program and the prior year workpapers, both of which are usually available in real world audits: **One student commented, "The procedures workpaper significantly helped, along with the previous year workpapers."** Students liked working

<sup>8</sup> Approved by Institutional Review Board.

in groups on the case as it enhanced their learning experience: A student commented, **“I thought working on the project in groups helped both of us understand the material better.”**

In response to the second open-ended question, about a third of the students stated that the case required no changes. The themes from the comments from the remaining students was the initial feeling of being overwhelmed and suggestion for more upfront **guidance**. **One student stated, “It was very overwhelming when first reading the assignment, but that may have been the point.”** These feelings are very similar to the experiences of relatively new auditors and points to the realistic nature of the case. Nonetheless, instructors adopting the case can definitely provide as much guidance as they see fit for their classes, as they encourage students to sift through the information in bits, and exercise their professional judgment.

Table 2  
*Summary of Student Feedback<sup>a</sup>*

		First Instructor	Second Instructor
1	The receivables audit case was realistic.	5.87	5.43
2	Working through the receivables audit case helped me recall audit terminologies and the audit process.	5.93	5.48
3	Working through the receivables audit case enhanced my understanding of the relationship between management’s financial statement assertions, audit objectives, and audit procedures.	5.87	5.61
4	Working through the receivables audit case required me to create audit workpapers.	6.13	5.87
5	Working through the receivables audit case required me to identify, interpret and apply relevant information.	6.13	5.78
6	The receivables audit case requires critical thinking and problem-solving skills.	6.13	6.09
7	The receivables audit case required me to apply my knowledge of accounting concepts.	5.87	6.00
8	Working through the receivables audit case required me to determine and utilize the appropriate audit technique (that is substantive tests of details or substantive analytical procedures).	5.60	5.52
9	The receivables audit case required me to exercise my professional judgment and make decisions about the fair presentation of the accounts audited.	6.00	5.70
10	Working through the receivables audit case helped me gain a better appreciation of audit documentation.	5.87	5.74
11	Overall, I found the receivables audit case and class discussion a worthwhile learning experience.	5.73	5.65

<sup>a</sup> The mean responses are on a 1-7 Likert scale: 1 = strongly disagree, 4 = neutral, 7 = strongly agree.

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Appendix 1  
Audit Program for Receivables

Prepared by: Sam Doe (1/30/2018)

Reviewed by:

C-05-07

Company: Tangible CorporationBalance Sheet Date: December 31, 2017

## Financial Statement Assertions

E/O	Existence or occurrence	V/A	Valuation or allocation
C	Completeness	P/D	Presentation and disclosure
R/O	Rights and obligations		

## Audit Objectives\*

- A. Receivables are obligations owed to the company at the balance sheet date (assertions E/O, R/O, and V/A).  
 B. Receivables include all amounts owed to the company at the balance sheet date (assertion C).  
 C. The allowance for doubtful accounts is adequate, but not excessive (assertions V/A).  
 D. Pledged receivables and related party receivables are properly disclosed (assertions R/O and P/D).  
 E. Receivables are properly classified (assertion P/D).

\* An audit objective in bracket means the procedures performed only partially achieves that objective.

Audit Objectives	Audit Procedures	Performed by	Work paper Index
D, E, [B]	1. Obtain and test the mathematical accuracy of the accounts receivable aging schedule <sup>9</sup> , and agree to the unaudited balance in the leadsheet. Reclass the following if included in accounts receivable balance: (a) credit balances, (b) note receivable(s), and (c) employees and related party receivable(s).	S.D	C-02 & C-03
A, E, [B]	2. Sample accounts receivable balances, and send confirmations for the sampled items. Retain all confirmations.	W.W S.D	C-04. C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-07, C-05-08, C-05-09, C-05-10.
A, E, [B]	3. Investigate any exceptions in the confirmations, and document how the exceptions were resolved.	W.W S.D	C-02. C-05-01, C-05-02, C-05-03, C-05-04, C-05-05, C-05-06, C-05-07, C-05-08. C-05-09, C-05-10.
C	4. Test the adequacy of the allowance for doubtful account:	S.D	
	a. Obtain a report of subsequent receipts. Test and document the subsequent receipts by examining deposit slips and remittance advices.	S.D	C-02
	b. If uncollected accounts remain significant, evaluate the adequacy of the	S.D	C-02

<sup>9</sup> Though not required, it is a usual procedure to test the accuracy of the aging schedule. This requires examining documents (e.g. shipping documents) for a sample of amounts in each aging category. For this case, assume aging categories are accurate.

	allowance for doubtful accounts receivables.		
D	5. Determine if there are pledged receivables, and document accordingly.	S.D	C-02
E	6. If receivables include note receivable(s), ensure current portions are properly classified.	S.D	C-02 & C-03
A, E, [B]	7. If receivables include note receivable(s), test the reasonableness of interest earned.	S.D	C-02 & C-03
D, [A], [B]	8. Determine if related party receivables exist, and perform the following:	S.D	
	a. Determine the nature of the related party receivables, and verify that the related party receivables are properly authorized.	S.D	C-02 & C-03
	b. Determine the balance of the related party receivables and verify the balance is properly recorded.	S.D	C-02 & C-03
C	9. Document the understanding of any <b>'other receivable account', verify the balance and evaluate collectability.</b>	S.D	C-02 & C-03
Conclusion	We performed procedures sufficient to achieve the audit objectives for receivables, and the results are documented in the stated workpapers.	S.D	C-01

## Appendix 2A

### *Prepared Confirmation Letter*

Tangible Corporation

Address: 400 South Kem Drive, Burlington, NC 27215. Tel: 336-888-0909

L. Lemp Company  
1267 Valley Street  
Pepper Pike, OH 44123  
Attn: Accounts Payable

January 19, 2018

Our auditors, DEKP CPAs, are auditing our financial statements. The audit includes direct verification of **our customers' balances**. Please confirm the balance due Tangible Corporation as of December 31, 2017, which our records show is \$6,638,810.

Please indicate in the memo below if the amount agrees with your records. If differences exist, please provide any information that will assist our auditors in reconciling the differences.

Please mail your reply directly to DEKP CPAs, 1000 Clarke Street, Greensboro, NC 98765, in the enclosed return envelope. Please do not mail any payments on this balance to our auditors.

Very truly yours,

\_\_\_\_\_  
Kim Bower  
Controller  
Tangible Corporation

To: DEKP CPAs

The balance of \$6,638,810 due to Tangible Corporation as of December 31, 2017, is correct with the following exceptions, (if any):

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Appendix 2B  
*Signed Confirmation Letter*

Tangible Corporation  
Address: 400 South Kem Drive, Burlington, NC 27215. Tel: 336-888-0909

L. Lemp Company  
1267 Valley Street  
Pepper Pike, OH 44123  
Attn: Accounts Payable

January 19, 2018

Our auditors, DEKP CPAs, are auditing our financial statements. The audit includes direct verification **of our customers' balances. Please confirm the balance due Tangible Corporation** as of December 31, 2017, which our records show is \$6,638,810.

Please indicate in the memo below if the amount agrees with your records. If differences exist, please provide any information that will assist our auditors in reconciling the differences.

Please mail your reply directly to DEKP CPAs, 1000 Clarke Street, Greensboro, NC 98765, in the enclosed return envelope. Please do not mail any payments on this balance to our auditors.

Very truly yours,  
Kim Bower  
Kim Bower  
Controller  
Tangible Corporation

-----  
To: DEKP CPAs

The balance of \$6,638,810 due to Tangible Corporation as of December 31, 2017, is correct with the following exceptions, (if any):

*No difference. The amount is correct.*

Signature: L Lemp  
Name: Larry Lemp  
Title: CEO, L. Lemp Company  
Date: January 25, 2018

Appendix 2C  
*Audited Confirmation Letter*

Tangible Corporation  
Address: 400 South Kem Drive, Burlington, NC 27215. Tel: 336-888-0909

C-05-07

Prepared by: Sam Doe (1/30/2018)  
Reviewed by:

L. Lemp Company  
1267 Valley Street  
Pepper Pike, OH 44123  
Attn: Accounts Payable

January 19, 2018

Our auditors, DEKP CPAs, are auditing our financial statements. The audit includes **direct verification of our customers' balances**. Please confirm the balance due Tangible Corporation as of December 31, 2017, which our records show is \$6,638,810.

Please indicate in the memo below if the amount agrees with your records. If differences exist, please provide any information that will assist our auditors in reconciling the differences.

Please mail your reply directly to DEKP CPAs, 1000 Clarke Street, Greensboro, NC 98765, in the enclosed return envelope. Please do not mail any payments on this balance to our auditors.

Very truly yours,  
Kim Bower  
Kim Bower  
Controller  
Tangible Corporation

-----  
To: DEKP CPAs

 C-02. No exception.

The balance of \$6,638,810 due to Tangible Corporation as of December 31, 2017, is correct with the following exceptions, (if any):

*No difference. The amount is correct.*

Signature:   
Name: Larry Lemp  
Title: CEO, L. Lemp Company  
Date: January 25, 2018

Appendix 3 C-01 Lead Sheet

C-01										Prepared by:	Sam Doe (1/30/2018)
Tangible Corporation										Reviewed by:	
Receivables Lead Sheet											
December 31, 2017											
<b>Procedures:</b>	See audit program (w/p C-00). Risk of material misstatement is moderate (w/p AP-03).										
<b>Conclusion:</b>	The balances tested herein appear to be fairly stated based on procedures performed in wps C-00 to C-05-10.										
Acct #	Account Title	Audited Balance		Unaudited Balance		Proposed Adjusting Journal Entries		Audited Balance			
		31/12/2016	Ref	31/12/2017	Ref	(PAJE)	Ref	31/12/2017	Ref		
1200	Accounts Receivable	\$ 230,675,893.00	PY	\$ 386,874,652.00	C-02	\$ (4,973,000.00)	C-03 PAJE #s 1-2	\$ 381,901,652.00	C-02		
1201	Allowance for Doubtful Accounts	\$ (39,467,935.00)	PY	\$ (59,859,610.00)	C-02	\$ -		\$ (59,859,610.00)	C-02		
1205	Note Receivable - Current	\$ -		\$ -		\$ 1,000,000.00	PAJE #5	\$ 1,000,000.00	C-02		
1210	Note Receivable	\$ -		\$ -		\$ 4,000,000.00	PAJE #1	\$ 4,000,000.00	C-02		
1215	Interest receivable	\$ -		\$ -		\$ 33,333.33	PAJE #3	\$ 33,333.33	C-02		
1220	Other Receivables	\$ 12,000.00	PY	\$ 12,000.00		\$ (12,000.00)	PAJE #4	\$ -	C-02		
		\$ 191,219,958.00		\$ 327,027,042.00		\$ 48,333.33		\$ 327,075,375.33			
		Footed		Footed		Footed		Footed			
<b>Excerpts from other lead sheets:</b>											
2300	Accounts Payable	\$ 14,579,200.00	PY	\$ 15,678,392.00		\$ 27,000.00	PAJE #2	\$ 15,705,392.00			
3003	Line of Credit	\$ -		\$ -		\$ -		\$ -			
5005	Revenue	\$ 463,876,540.00	PY	\$ 578,359,820.00		\$ (12,000.00)	PAJE #4	\$ 578,347,820.00			
5550	Interest Revenue	\$ -	PY	\$ -		\$ 33,333.33	PAJE #3	\$ 33,333.33			
5660	Bad debt expense	\$ 17,396,870.00	PY	\$ 20,391,675.00		\$ -		\$ 20,391,675.00			
<b>NOTES:</b>											
			PY							- Audited prior year balance	
			w/p							- Workpaper	

Appendix 3 C-02 AR Aging

Tangible Corporation Accounts Receivables Aging Schedule For Year Ended December 31, 2017											Prepared by	Sem Doc (V/P/W/T/H)
PBC - Aging provided by computer (Jan Bowen)											Reviewed by	
Customers	2016 Balances	2017 Balances	Current (30 Days)	Past Due			Total	Final Total	Procedure 26.1	Subsequent steps	Procedure 41- Tracing	
			30-60 Days	60-90 Days	90-120 Days							
A. Abu	5,874,593.00	6,342,519.00	6,342,519.00				6,342,519.00	6,342,519.00				
B. Boston	6,743,392.00	13,621,821.00	32,563,781.00	20,000,000.00		1,089,040.00	53,621,821.00	53,621,821.00	Confirmed No exception C-05-01	(53,621,821.00)	Traced without exception to the remittance advice, and deposit slip for W/P/H.	
C. Cupid	3,674,927.00	746,291.00	46,291.00	175,000.00		102,778.00	222,222.00	746,291.00	746,291.00		(700,000.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
CEO - AM		5,000,000.00				8,000,000.00	5,000,000.00	5,000,000.00	FA/E #1			
D. Danley	2,739,892.00	6,374,921.00				8,374,921.00	6,374,921.00	6,374,921.00	Confirmed No exception C-05-02			
E. Eggor	478,863.00	836,973.00	836,973.00				836,973.00	836,973.00			(836,973.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
F. Frantzo	2,563,784.00	7,183,973.00		7,183,973.00			7,183,973.00	7,183,973.00	Confirmed No exception C-05-03			
G. Gasten	2,740,891.00	6,478,293.00	6,478,293.00				6,478,293.00	6,478,293.00			(6,478,293.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
H. Hamley	46,387,283.00	31,265,930.00	31,265,930.00				31,265,930.00	31,265,930.00	Confirmed No exception C-05-04			
I. Igot	7,493,922.00	5,542,653.00	4,542,653.00	1,000,000.00			5,542,653.00	5,542,653.00			(4,000,000.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
J. Jompton	81,376,523.00	77,763,921.00	77,763,921.00				77,763,921.00	77,763,921.00	Confirmed No exception C-05-05			
K. Koote	637,492.00	543,894.00	543,894.00				543,894.00	543,894.00	Confirmed No exception C-05-06			
L. Lemp	4,463,282.00	6,638,810.00	6,638,810.00				6,638,810.00	6,638,810.00	Confirmed No exception C-05-07		(4,638,810.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
M. Merrily	324,536.00	4,357,201.00	4,357,201.00				4,357,201.00	4,357,201.00				
N. Nonny	23,495.00	534,267.00				534,267.00	534,267.00	534,267.00				
O. Oplon	5,000.00	(27,000.00)	(27,000.00)				(27,000.00)	(27,000.00)	FA/E #1			
P. Panket	2,324,596.00	2,649,397.00		1,524,378.00		1,025,009.00	2,649,397.00	2,649,397.00				
Q. Quamp	76,493.00	4,432,453.00	1,324,536.00	2,256,471.00		971,448.00	4,432,453.00	4,432,453.00			(3,000,000.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
R. Ruzic	687,250.00	547,332.00				547,332.00	547,332.00	547,332.00				
S. Sabley	9,872,345.00	8,234,526.00	8,234,526.00				8,234,526.00	8,234,526.00	Confirmed No exception C-05-08		(8,234,526.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
T. Tully	2,637,942.00	190,263.00	99,263.00	95,000.00		45,000.00	190,263.00	190,263.00			(190,263.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
U. Ulfy	2,304,921.00	1,173,452.00				1,173,452.00	1,173,452.00	1,173,452.00				
V. Vena	500.00	500.00				500.00	500.00	500.00			(500.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
W. Weyss	8,093,942.00	590,000.00	590,000.00				590,000.00	590,000.00				
X. Xoley	7,345.00	25,625.00				25,625.00	25,625.00	25,625.00				
Y. Yohely	34,263,201.00	76,534,356.00	43,926,349.00	23,077,000.00		3,994,958.00	76,534,356.00	76,534,356.00	Confirmed No exception C-05-09		(76,534,356.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
Z. Zeffe		79,364,092.00	1,501,000.00	40,863,274.00		32,439,036.00	5,364,732.00	79,364,092.00	79,364,092.00	Confirmed No exception C-05-10	(79,364,092.00) Traced without exception to the remittance advice, and deposit slip for W/P/H.	
<b>Total</b>	<b>230,675,893.00</b>	<b>386,874,652.00</b>	<b>228,536,368.00</b>	<b>95,485,096.00</b>	<b>56,000,468.00</b>	<b>8,852,102.00</b>	<b>386,874,652.00</b>	<b>386,874,652.00</b>				
<b>Facilities total</b>	<b>230,675,893.00</b>	<b>386,874,652.00</b>	<b>228,536,368.00</b>	<b>95,485,096.00</b>	<b>56,000,468.00</b>	<b>8,852,102.00</b>	<b>386,874,652.00</b>	<b>386,874,652.00</b>			Post YE outstanding balance Ratio of AR received: 144,294,019.00 (Calculated) 37.22% (Calculated)	
<b>Adjustments &amp; Deductions:</b>											Actual W/P/H Tangible Corporation was calculated 22% of outstanding customer balances.	
<b>FA/E #1 (CEO)</b>		(5,000,000.00)				(5,000,000.00)	(5,000,000.00)	(5,000,000.00)			C-03	
<b>FA/E #2 (Customer D)</b>		27,000.00	27,000.00				27,000.00	27,000.00			C-03	
<b>Adjustments total</b>	<b>230,675,893.00</b>	<b>381,901,652.00</b>	<b>228,563,868.00</b>	<b>95,485,096.00</b>	<b>51,000,468.00</b>	<b>8,852,102.00</b>	<b>381,901,652.00</b>	<b>381,901,652.00</b>			C-01	
<b>AR Aging percentage</b>			50%	25%	10%	2%						

4a continued	Subsequent receipts report as at January 19, 2018 was obtained from the Controller. All receipts were traced to remittance advices and deposit slips. See testing above.					
4b	Allowance to AR balance ratio:		PY		CY	
	Allowance	\$	39,467,935.00	\$	59,859,610.00	C-01
	Audited AR Bal.		230,675,893.00		386,874,652.00	C-01
	Ratio		17.11%		15.47%	Marginal decrease of 154% < Calculated
	About 62% (see calculation above) of AR were collected subsequent to year-end. The receipts are for 12/31 outstanding invoices, and apply mostly to aged accounts. Client's policy is to record an allowance for at least the total of AR balances greater than 60 days. Accounts are written off after 120 days. No write-offs per Kim Bower (Controller). None noted per journal entry testing performed in w/p A-06.					
	Client's Allowance	\$	59,859,610.00			C-01
	Auditor's expectation:					
	AR: Greater than 60 days	\$	59,852,568.00			< Calculated from aging above
	Difference	\$	(7,042.00)			Allowance exceeds required minimum. Difference is also below de minimus.
	AR allowance seems OK based on compliance with policy, amount of subsequent AR receipts as at January 19, 2018, and the aging of the outstanding AR balance after applying the subsequent receipts.					
5	Accounts receivables are collaterals for the revolving line of credit from FirstEco bank. The agreement was signed on July 1, 2014. See PF 39. As at December, 31, 2017, there is a zero balance on the LOC. See Q-05 for LOC balance confirmation. Therefore, Tangible Corporation has rights to accounts receivables.					
6 & 8	Tangible Corporation issued a note of \$5m to the CEO. Note Agreement date October 31, 2017 (See PF 50) Terms include: 5 equal annual payments beginning Oct. 31, 2018. 4% interest rate. Principal payment and accrued interest payment are due Oct. 31 of each year. This is a related party transaction, and the note agreement indicates board approval. No payments was due in the CY.					
	Note amount	\$	5,000,000.00			PF 50
	Term (years)		5			PF 50
	Due in 1 year	\$	1,000,000.00			C-03 (PAJE #5) and C-01
	Long-term portion	\$	4,000,000.00			C-01
7	Noted Tangible Corporation did not accrue interest on note. Two months accrued interest is a calculated below. See PF 50 for the promissory note agreement.					
	Note amount	\$	5,000,000.00			PF 50
	Interest rate		4%			PF 50
	Annual interest	\$	200,000.00			< Calculated
	Nov - Dec 2017	\$	33,333.33			< Calculated and C-03 (PAJE #3) and C-01
9	In the other receivables account was recorded a salary advance to an employee, Donald Huff. The amount was paid off (Check # 3356 dated October 12, 2017) in October 2017. The cash receipt number is 98976, dated October 13, 2017. Client initially recorded the payment as revenue. PAJE #4 (C-03) was proposed to correct the misstatement. There is a zero balance at year end (C-01).					

Appendix 3 C-03 Adjustments

<b>C-03</b>			<b>Prepared by:</b>	<b>Sam Doe (W30/2018)</b>	
Tangible Corporation			<b>Reviewed by:</b>		
Receivables Accounts					
December 31, 2017					
<b>Proposed journal entries:</b>					
	Work-paper	Account #	Accounts	Debit	Credit
PAJE #1	C-02	1210	Note Receivable	\$ 5,000,000.00	
		1200	Accounts Receivable		\$ 5,000,000.00
			<i>To record note to CEO in note receivable account.</i>		
PAJE #2	C-01 and C-02	1200	Accounts Receivable	\$ 27,000.00	
		2300	Accounts Payable		\$ 27,000.00
			<i>To reclass credit balance in customer D's AP account.</i>		
PAJE #3	C-01 and C-02	5005	Interest receivable	\$ 33,333.33	
		1220	Interest revenue		\$ 33,333.33
			<i>To record earned interest on CEO's promissory note.</i>		
PAJE #4	C-01 and C-02	5005	Revenue	\$ 12,000.00	
		1220	Other Receivable		\$ 12,000.00
			<i>To properly account for an employee (Donald Huff) payroll of salary advance.</i>		
PAJE # 5	C-01 and C-02	1205	Note Receivable - Current	\$ 1,000,000.00	
		1210	Note Receivable		\$ 1,000,000.00
			<i>To reclass current portion of note receivable from CFO.</i>		