

CPA PRACTICE AIDS, LLC
ILLUSTRATIVE TESTS OF BALANCES PROCEDURES

Reliance on TOB Procedures/RMM Result

Major Audit Area	High RMM	Slightly Less than High RMM	Low to Medium RMM
<p>1. Cash</p> <p>2. Trade accounts receivable and sales.</p> <p>3. Inventories and cost of sales.</p>	<p>1. Prove all major bank reconciliations at the engagement date. Trace most reconciling items to cutoff statements. Confirm all accounts. Search for unrecorded transfers.</p> <p>2a. Send positive confirmations, and/or perform alternative procedures, for individually significant accounts comprising a substantial portion of the account balances as of the engagement date. Support non-replies and exceptions by reference to sales and cash receipts documents. Consider sending positive confirmations on a few representative remaining accounts.</p> <p>2b. Perform extensive sales cutoff test by reference to sales and shipping documents for a large period before and after engagement date.</p> <p>2c. Compare sales by month, by product, to preceding year. Follow up on significant fluctuations by reviews of underlying records.</p> <p>3a. Consider observing inventory from start to finish. Make test counts of all individually significant items.</p> <p>3b. Perform inventory pricing and clerical tests for all individually significant items</p>	<p>1. Reduce the number of reconciling items traced to subsequent month's statement. No cutoff statement. Search for unrecorded transfers. Confirm all accounts.</p> <p>2a. Select fewer items as individually significant items for positive confirmation. Send some negatives on smaller balances. Consider sending confirmations one month before engagement date.</p> <p>2b. Shorten test period or raise lower limit of items tested.</p> <p>2c. Sales procedures basically the same.</p> <p>3a. Depending on client's controls over count, raise the lower limit of individually significant items for test counts.</p> <p>3b. Depending on client's double-check procedures for pricing, extending and footing the inventory sheet, consider reducing the no. of individually significant items tested from 100%.</p>	<p>1. Prove only major reconciliations at engagement date. No cutoff statements; use next month statement. Search for unreconciled transfers. Confirm all accounts.</p> <p>2a. Send positive confirmations on ISI's before engagement date. Send some negatives on smaller balances.</p> <p>2b. Select a few sales before and after year end and trace to support.</p> <p>2c. None. Analytical procedure only.</p> <p>3a. Count fewer ISI's.</p> <p>3b. Reduce the number of ISI's price tests and clerical tests.</p>

Reliance on Tests of Balances/ RMM Result

Major Audit Area	High RMM	Slightly Less than High RMM	Low to Medium RMM
4. Fixed assets.	4. Perform extensive vouching and inspections. A significant portion of the additions should be subjected to support tests.	4. Raise the lower limit of individually significant items subjected to vouching and inspection, i.e., vouch fewer items.	4. Reduce the number of ISI's vouched.
5. Accounts payable.	<p>5a. Perform an extensive search for unrecorded liabilities including subsequently recorded transactions, open invoices, receiving report and purchase order files. Lower limits for individually significant items should be used. Consider confirming major suppliers, including zero balances.</p> <p>5b. Perform extensive purchases cutoff tests by reference to vendor invoices for a large period before and after engagement date.</p>	<p>5a. Same due to high inherent risk of unrecorded payables.</p> <p>5b. Shorten test period or raise lower limit of individually significant items tested.</p>	<p>5a. Reduce the extent of the search. No confirmations.</p> <p>5b. Select a few purchases before and after the yearend and trace to support.</p>
6. Expense accounts.	6. Perform extensive vouching tests for all significant account balances by examining canceled checks and supporting documents.	6. Raise lower limit of individually significant items tested, i.e., support fewer items. Consider omitting inspection of canceled checks.	6. None except for tax and reporting purposes.
7. Payroll accounts.	7. Compare monthly payroll by labor category and follow up on variations by reference to underlying records. Consider reconciling gross wages to payroll tax returns and , if necessary, detailed testing a few selected disbursements.	7. Basically the same procedures, except detailed tests can be eliminated.	7. None except for analytical procedures.