Auditing Cash and Cash Equivalents

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Auditing Cash and Cash Equivalents

READING MATERIAL

I. Audit Objectives for Cash

A. Risk Assessment for Cash

One of the first areas to which new staff auditors are typically assigned is the audit of cash and cash equivalents (e.g., short-term investments with original maturities of generally less than three months that function equivalent to cash). This is an area used to “get your feet wet” because there is a lack of subjectivity and complex valuation issues. Using third-party evidence like bank confirmations and bank statements (with supporting documents like cancelled checks) tends to strengthen the persuasiveness of audit evidence related to existence and completeness of cash. On the other hand, cash tends to have a higher inherent risk due to fraud. As a result, many traditional audit procedures are designed to detect material fraud. Therefore, the review of the nature and extent of reconciling items and the assurance of proper cut-off of deposits-in-transit, outstanding checks, electronic wire transfers, and debit memos are important. Depending on the materiality of cash balances at year-end, the volume of transactions flowing through specific cash accounts, the strength of the company’s overall internal control environment, and the auditor’s assessment of control risk relative to cash receipts and disbursements, the auditor may tailor standard audit procedures to reduce the risk of failing to detect material misstatement in the financial statements.

Auditors should ensure that internal controls are adequately designed and operating effectively relative to the processing of electronic, check, and non-check disbursements. Internal controls are often strong around check disbursements, but not as strong around non-check disbursements because they are outside normal, routine transaction processing. Non-check activity is often subject to management override of controls, which increases inherent fraud risk for such activity.

The audit of any financial statement area must appropriately address each of the six management assertions:

- **Existence or occurrence** -- e.g., cash exists;
- **Completeness** -- e.g., cash balances properly reflect all cash on hand, in transit, or on deposit with outside third parties;
- **Rights and obligations** -- e.g., cash is owned by the client;
- **Valuation or allocation** -- e.g., foreign currency;
- **Accuracy or classification** -- e.g., cash is properly classified in the financial statements, and any restrictions on the availability of funds are properly disclosed; and
- **Cutoff** -- e.g., cash balances reflect proper cutoff of both receipts and disbursements.

B. Substantive Procedure Focus

Substantive audit procedures primarily focus on obtaining assurance about the reliability of the bank reconciliation. The bank reconciliation provides audit evidence about existence/occurrence, completeness, accuracy/classification, and cutoff. The bank balance shown on the bank reconciliation may be confirmed, or it may simply be agreed to the bank statement. Vouching and tracing may not be
necessary on all bank account reconciliations, but there is a tendency to perform these procedures automatically. The nature, timing, and extent of detail testing should vary with risk, materiality, and other procedures.

Other substantive procedures generally relate to analytical procedures, such as scanning bank reconciliations for reasonableness, and scanning cash receipts and disbursements near period end for significant or unusual transactions. Small differences in timing of cash management can significantly change a balance from period to period. Therefore, the account tends to not be predictable.

C. Specific Cash Workpaper Considerations

Auditing standards require that audit work enable experienced reviewers, who know nothing about the specific client, to understand the nature, timing, extent, and results of auditing procedures performed and evidence obtained. This includes the ability of the reviewer to reperform the work and come to the same conclusions, so the auditor must ensure that identification of items tested is sufficiently documented. Examples include the following: (i) making sure all checks were tested if they were greater than $10,000 and cleared the January bank statement; (ii) if a haphazard or random sample was used to select test items, noting the source or specific check numbers; or (iii) noting the starting point and sampling interval if a systematic sampling method was used.

The auditor must determine how individual audit areas reconcile to the financial statements, footnotes, or other supplemental schedules. In addition, workpapers must indicate who performed and reviewed the work. Significant audit findings must be documented and may be addressed in specific audit/research memos.

One of the areas that new auditors struggle with is how much documentation to retain in the workpapers. The following is a summary of some key workpaper considerations related to auditing cash:

• Obtain does not mean retain. Many supporting schedules and documentation are used by the auditor to scan for reasonableness and tracing of items. The purpose, performance, and results of the procedures can be documented without retaining the actual supporting schedules and documentation in the actual workpaper files. Challenge the need for extensive documentation related to bank accounts with immaterial balances and/or minimal or infrequent activity. In some cases, the audit procedures related to these less significant accounts can be sufficiently documented on the lead schedule. A brief memo may be the most efficient means of documentation.

• Use a standard tick mark sheet to explain repetitive procedures. Use “F” for footing, “i” or “im” for immaterial, “CF” for cross-footed, and “C” for confirmed without exception. Most firms will have a list of standard tick marks used.

• Document work directly on the audit programs whenever possible. This method of documentation is often appropriate for scanning and inquiry procedures.

• Avoid over-documentation of immaterial reconciling items, especially if they relate to management letter comments. Maintain a sense of professional judgment based on risk and materiality in pursuing reconciling items in cash. Keep in mind that an additional service may be suggested to the client to assist in “cleaning up” and strengthening controls around cash. Speak to your in-charge if you are uncertain about what to pursue under the scope of the audit.
D. Other Special Issues Concerning Cash

1. **Client-Received Bank Statements**

Obtaining a bank confirmation or a cut-off bank statement directly from the bank is traditionally the strongest evidence. However, in today’s environment, bank confirmations are often not the strongest evidence, as the bank may repeatedly confirm the wrong date, confirm the wrong accounts, or just not return confirmations on a timely basis. In these cases, the auditor should document this historical evidence, which may support professional judgment to directly use original bank statements in lieu of attempting confirmation of cash at year-end. The use of client-received bank statements may be sufficient if risk and materiality justify accepting a lesser level of evidence. When using client-received bank statements, the auditor should be alert for erasure marks or other evidence of tampering. In addition, the auditor can compare beginning balances to the prior month’s bank statement, and ending balances to the next month’s beginning bank statement. Alternatively, the bank balance may be compared to the bank account information available through on-line banking arrangements. The auditor may perform different procedures for each of the client’s bank accounts, depending on risk and materiality.

2. **Held Checks**

The auditor should be alert to held checks at year-end. Held checks occur when the company records all the cash disbursements right before period end but does not mail them for several days (or even a longer period of time in some cases). The checks could be held for cash management purposes, because there is a dispute with the vendor, or for another reason. The auditor should make specific inquiry about held checks and review the subsequent month’s activity of significant bank accounts for the reasonableness of check clearing dates compared to check preparation dates. Held checks should not be listed as outstanding checks (and added back to the year-end cash balance), and a liability may need to be placed on the books for financial statement presentation purposes as the off-setting entry.

3. **Bank Overdrafts**

Bank overdrafts can result from either a real negative balance noted on the bank statement or a book balance overdraft (even though the bank balance notes a positive balance). Material cash overdrafts should be shown as a current liability on the financial statements, not as a negative current asset. In many cases, all cash account balances within a single financial institution can be added together to determine whether the entity has a net positive or negative balance (i.e., the company has overdraft protection that allows for transfer of cash to cover any short-falls in other accounts). If a net negative balance still exists within accounts held in one financial institution but the amount is immaterial, the auditor may consider netting the amount against balances in other financial institutions.

4. **Escrow Accounts**

In some cases, the company may have cash on deposit with a third party for payment of future expenses (e.g., real estate taxes, insurance, etc.) The company has no control over these accounts, and cannot readily convert them into cash for general operating purposes. These escrow accounts are generally not presented with “cash” on the balance sheet, but are rather shown as prepaid expenses or charged directly to expense if not material. The nature of material escrow accounts should be disclosed in the footnotes to the financial statements.
5. Canceled Checks Not Available

Many banks no longer return canceled checks with bank statements on a routine basis. In some cases, the bank can provide all enclosures necessary for the audit if specifically asked by the client (e.g., for the December and January bank statements if a 12/31 year-end). Alternatively, the bank may agree to provide copies of specific canceled checks upon request, or the client may be able to access electronic copies of checks through on-line banking arrangements. If this is not possible, the auditor may gain evidence by communicating directly with the payee regarding specific disbursements if risk and materiality warrants. More commonly, the audit may be able to rely on a combination of data from the bank statement and client-generated reports to gain sufficient evidence about disbursements. For example, the bank statement typically lists the check number, amount, and date paid by the bank. If internal controls around disbursements are sufficient, the auditor may use the check disbursement register to gain information about payee and check date. Sound controls include the use of pre-numbered checks, listing check numbers in the cash disbursement register, restricting authorization to signature plates, ensuring appropriate check signers, and proper segregation of duties related to check preparation and posting from the approval of payments, signing of checks, mailing of checks, and preparation of bank reconciliations.

6. Using Analytical Procedures to Test Reconciling Items

In some cases, the auditor may be able to take a primarily analytical approach to test reconciling items. For example, the auditor would have knowledge about the typical nature and amount of reconciling items clearing an account, based on the client’s business, the industry, and the nature of the account itself (e.g., payroll, savings, operating) in order to establish an expectation. The auditor would then scan the reconciling items for unusual activity outside of expectations. Unusual activity would be specifically tested, as opposed to taking a strict scope approach. The key to this substantive testing approach is to document expectations about the nature and amount of reconciling items prior to performing the scan. Consult your in-charge before using this approach.

7. Testing Controls around Bank Reconciliations

The auditor often understands the bank reconciliation process by understanding the design of internal controls to plan the nature, timing, and extent of audit procedures. Bank reconciliations are a key control that, if operating effectively, can readily justify the auditor’s use of original bank statements received by the client in lieu of obtaining bank confirmations. An easy way to test this control is to turn the inquiry regarding the design of the bank reconciliation process into “corroborated inquiry,” which may allow the auditor to reduce control risk below maximum. Corroborated inquiry includes inspecting one or more bank reconciliations to ensure that they were prepared and reviewed on a timely basis. Look for sign-offs to verify that preparation and review are performed by appropriate parties. Scan the selected bank reconciliations for unusual reconciling items and ensure that the client can adequately explain the nature of the items. These procedures are likely to be sufficient to justify not sending bank confirmations.

8. Electronic Bank Confirmations

Some banks only respond to electronic confirmation requests submitted via a designated third-party provider. These providers serve as an intermediary who provides a secure link between the auditor and a validated financial institution. An electronic confirmation can be considered as a sufficient, valid confirmation response if the auditor is satisfied that the electronic confirmation process is secure and properly controlled, information has been obtained from a third party who is the intended respondent, and information is a direct communication in response to a request. The auditor might review an assurance
trust services report or another auditor’s report on the electronic confirmation process. The electronic confirmation process provides the following benefits to the auditor:

• Provides a secure link to a valid financial institution.
• Provides significantly faster response times since the confirmation is received directly by a bank employee who is designated by the institution to respond to such confirmations.
• Remove the possibility of fraudulent or unauthorized recipients or interception of confirmation requests by the client.
• Paperless engagement packages may be integrated with confirmation processes provided by third-party confirmation providers.

9. Cash in Excess of Federally Insured Limits

The client should disclose cash in excess of the $100,000 federally-insured limits, as it relates to a concentration of credit risk. The base amount that auditors should use to determine excess cash is the amount per the bank, not per the client’s books. The bank amount is what the financial entity is at risk for, regardless of what the client’s books say. The FDIC considers the combined amount of all checking accounts, savings accounts, money market accounts, and certificates of deposit in a single financial institution when determining amounts in excess of the federally-insured limits.

**Technical update:**

Effective May 20, 2009, through December 31, 2013, the federally-insured limit has been increased to $250,000.

II. Special Considerations for Specific Industries

A. Special Cash Considerations for Nonprofit Organizations

Because nonprofit organizations rely heavily on charitable donations, membership dues, grants, and endowments, it is important to make sure that the sources and uses of funds are monitored that much more closely. In addition, the client could be negatively affected severely by the loss of future funds, should misappropriation of funds occur, so the risk of fraud needs to be strongly mitigated.

1. For accounts opened and closed during the year, trace the authorization to the board of directors’ minutes.
2. Consider whether the board of directors annually authorizes all bank accounts and check signers.
3. Identify grants or programs that are required by funding sources to maintain separate bank accounts, and verify that requirements are fulfilled.
4. Review funding source agreements and board of directors meeting minutes for accounts subject to withdrawal restrictions, whether restricted for specific purposes or restricted for time periods.
5. If the organization collects cash through direct contact solicitations, are there pre-numbered receipts and double-counting of currency collections?
6. For cash collected at special events, are cash receipts reconciled to tickets sold? Are unsold tickets accounted for?
7. Are fundraising employees separate from accounting functions?
8. Are disbursements that require special approval of funding sources or of the board of directors properly documented?
B. Special Cash Considerations for Governmental Entities

There are several differences in accounting and reporting for cash for governmental entities. For example, GASB No. 3 requires governmental units to disclose the types of investments they are legally authorized to make and any violations of legal or contractual provisions for deposits. The auditor has to evaluate a governmental unit’s compliance with these legal provisions for deposits. An important audit objective is evaluating whether deposits are legally acceptable, whether depository institutions maintain specified and adequate collateral, and whether the investments are such, as allowed by law and investment policies.

Governmental units frequently pool cash accounts of several funds. Each fund has an interest in the pooled cash account. If one fund is “overdrawn,” an interfund payable is established to the fund that is deemed as having “loaned” the money. If the total pool is overdrawn, then the total pool is a liability similar to bank overdrafts.

State statutes often require that cash deposits be collateralized by the depository financial institution. When deposits exceed depository insurance, statutes often require the depository institution to pledge specified types of securities as collateral (e.g., 100 to 110 percent of uninsured deposits). Therefore, auditors must become familiar with collateralization laws and determine the existence and value of collateral throughout the year and at year-end.

FDIC insurance provisions are different for governmental entities. Time and savings account deposits insured in the same state in which the entity operates are totaled separately from demand deposits within the same state. Each of these two subtotals is subject to a $100,000 maximum. However, if the funds are deposited outside the state in which the governmental unit is located, the insurance coverage is $100,000 for all time, savings, and demand deposits in aggregate. For example, if there is $110,000 in a checking account, $80,000 in a savings account, and $60,000 in a certificate of deposit, the following are the variations of insurance:

- If in a depository within the same state, then $10,000 of the checking account and $40,000 of the savings and CD accounts would be uninsured.
- If in a depository outside of the state, then $150,000 of the aggregate of all three accounts would be uninsured.

1. If the government entity internally pools its cash accounts, determine that the allocation of internal cash balances and interest income, if any, is reasonable.
2. It is usually effective to apply audit procedures for cash for all funds in one “all funds” audit workpaper section. A summary schedule of all cash balances by fund type would be cross-referenced to appropriate workpapers.
3. Identify the individual funds that are required by law or contractual agreement to maintain separate bank accounts, and verify that requirements are fulfilled.
4. GASB 34 requires governmental entities to disclose whether there have been any violations of legal or contractual provisions for deposits. These disclosures by management create a need for the auditor to evaluate compliance, including whether depositories are legally acceptable and whether adequate specified collateral has been maintained as required.
5. Obtain a schedule of collateral pledged to secure deposits, including: name of depository, name of financial institution holding the collateral, description of collateral, and amount of collateral.
6. Confirm collateral pledged to secure deposits with the financial institution holding the pledged collateral securities.
7. Determine if the collateral complies with legal requirements.
8. Ascertain fair value of collateral and determine if the amount is adequate to secure funds on deposit as required by law.
9. Consider the need to determine that collateral pledged to secure deposits was adequate at various times during the year.
10. Consider the need to confirm federal depository insurance coverage.
11. In a governmental engagement, counting cash on hand is more common than in an audit of a commercial enterprise. However, the auditor should not routinely count cash on hand.
12. Consider whether the governing body annually authorizes all bank accounts and check signers.
13. Is effective control provided over miscellaneous receipts such as salary reimbursements from other governmental agencies, and out-of-town fire calls?
14. Does the governmental unit avoid commingling cash receipts with petty cash funds?
15. Are the petty cash funds maintained on an imprest basis?

**III. Cash Sample Disclosures**

**Cash equivalents**
For the purposes of the statement of cash flows, the Company considers all short-term investments with a maturity of three months or less to be cash equivalents.

**Certificate of deposit**
A certificate of deposit totaling $50,000 purchased in 20XX is included in the accompanying financial statements. The certificate bears interest of .5% and has a maturity of three months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material impact on the financial statements.

**Deposits in excess of FDIC – Significant concentrations of credit risk**
The Company has concentrated its risk for cash by maintaining deposits in one financial institution. The deposits are insured by the Federal Deposit Insurance Corporation for up to $250,000. At December 31, 20XX, the Company’s uninsured cash balances total $50,200.

**Restricted cash**
Restricted cash represents $50,000 required to be held in a restricted account per the terms of the Company’s bond agreement. This amount must be maintained until the debt is paid off.
Auditing Cash and Cash Equivalents

**LEARNING QUESTIONS**

1. Cash equivalents are generally short-term investments with original maturity of ____________ month(s) or less that function equivalent to cash.
   
   A. Three.
   B. Six.
   C. One.

2. Which of the following is NOT a true statement relative to the audit of cash?
   
   A. Cash generally has few, complex valuation issues.
   B. Audit evidence related to cash can be relatively strong, as the auditor can use bank confirmations and bank statements from third-parties.
   C. Cash typically has a low inherent risk of fraud.

3. Which of the following is NOT a financial statement assertion primarily addressed through the audit objective that determines whether cash balances reflect proper cutoff of both cash receipts and disbursements?
   
   A. Existence.
   B. Completeness.
   C. Rights and obligations.

4. Which of the following is NOT a test primarily for existence of cash?
   
   A. Tracing material deposits-in-transit to the subsequent period’s bank statement, noting reasonableness of the time period between book and bank recording.
   B. Tracing the bank balance per the bank reconciliation to the standard bank confirmation received by the auditor directly from the bank.
   C. Inquiring whether cash accounts are designated for a special purpose.

5. Using a zero-balance imprest account for payroll disbursements is a ____________ control over cash disbursements.
   
   A. Preventive.
   B. Detective.
   C. Monitoring.

6. ____________ is a way to detect unauthorized disbursements.
   
   A. Positive pay.
   B. Negative pay.
   C. Kiting.

7. Which of the following would most likely increase the risk of material misstatement due fraud or error?
   
   A. Use of electronic banking over manual checks.
   B. Prevalence of non-check disbursements.
   C. Low volume of transactions.
8. Which of the following assertions would most likely have higher risk of material misstatement if material cash donations are collected at a charity gala where the nonprofit’s internal control consciousness is weak?

A. Existence.
B. Completeness.
C. Classification.

9. Which of the following would generally be considered to be an external confirmation in accordance with generally accepted auditing standards?

A. Agreeing the balance per bank to a written confirmation directly received by the auditor from a knowledgeable individual at the bank.
B. Agreeing the balance per bank to the client’s on-line bank account information.
C. Agreeing the balance per bank to the original client-received bank statement.
Auditing Cash and Cash Equivalents

HOMEWORK

Cash Case Study

Instructions: Review the following information and prepare the audit workpapers for cash using the templates provided. Place an “X” through any information you would not include in the actual engagement workpapers. Use the provided list of typical cash audit procedures (or your firm’s standard cash audit program) to determine your procedures. Use your professional judgment to alter procedures for risk and materiality.

Information Provided:
- Typical cash audit procedures.
- Cash lead sheet.
- Operating cash account bank reconciliation (prepared by client).
- Request for cut-off bank statements (prepared by client).
- Operating cash account January cut-off bank statement with cancelled checks (received by auditors).
- Payroll account bank reconciliation (prepared by client).
- Payroll account January bank statement (received by client).
- Bank confirmation (received by auditors).
- Savings account December bank statement.

Note: Exhibit 4: Cash Inquiry Case Study and Exhibit 6: Additional Information Obtained from the CFO contained in the Participant Supplemental Materials from main portion of the webinar contains additional information pertinent to this case study.

Key Information:
- Client: Carr Parts Company
- Fiscal year end: December 31
- Tolerable misstatement: $50,000
- Planned scope for testing outstanding checks = 1/10 of tolerable misstatement

Key Players:
- Justin Tyme -- Staff auditor with Smart & Co., LLP
- Iona Carr -- Owner/President
- Norma Lee -- CFO
- Otto Mobile -- Accounts payable manager
- Willy Makit -- Bookkeeping clerk
Typical Cash Audit Procedures

Instructions: Use this exhibit to determine your audit procedures, or use your firm’s standard audit program as an alternative.

1. Using the standard AICPA bank confirmation form, consider requesting confirmation as of the balance sheet date for each bank account. Trace the bank balance on the reconciliation to the bank confirmation received from the bank. This should include confirmation of material savings accounts, certificates of deposit, and compensating balance requirements, restrictions on withdrawal of funds. (Note: Accounts selected for confirmation should be based on professional judgment considering risk and materiality. If the client has only a few accounts, it may make sense to send confirmations for every account. If the client has numerous primary and secondary accounts, perhaps only the primary account(s) are confirmed. In some cases, all bank balances may simply be agreed to the original bank statements or on-line inquiry.)

2. Consider sending standard bank confirmations for accounts closed during the year if there is a risk of fraud or unrecorded debt.

3. Perform alternate procedures for confirmations not received. An example would include agreeing the balance per bank reconciliation to the client-received bank statement, bank cut-off statement received by the auditors, or other information accessible through on-line inquiry directly with the bank.

4. For accounts with a significant volume of transactions, consider requesting a cutoff bank statement for the subsequent period after the balance sheet date to be mailed directly to the auditors. Compare the beginning bank balance on the subsequent bank statement to the bank reconciliation. Investigate any difference.

5. Trace the reconciled book balance to the general ledger trail balance.

6. Consider testing the clerical accuracy of the reconciliation and detail supporting schedules.

7. Obtain the bank reconciliation and review the nature and extent of reconciling items for reasonableness for accounts with significant balances or volume of activity, and determine the necessity and extent of reconciling items testing based on professional judgment. Be alert for unusual reconciling items, even if not quantitatively material.

8. Consider tracing material deposits per the bank reconciliation to deposits in the subsequent period’s/cutoff bank statement noting reasonableness of the time period between book and bank recording.

9. Consider inspecting selected canceled checks returned with the subsequent period’s cutoff bank statement. Trace checks dated before the balance-sheet date above a specified scope to the list of outstanding checks. Be alert for large or unusual outstanding checks. Investigate any large or unusual outstanding checks that did not clear with the subsequent period’s cutoff bank statement.

10. Inquire whether any checks drawn before year end were released after year end or are being held. Consider classification of any significant held checks to accounts payable.
11. Consider reviewing the client’s schedule of material interbank transfers for a sufficient period before and after year end to determine that the deposit and disbursement side of each transfer is recorded in the proper period, and that incomplete transfers are properly recorded as reconciling items on the bank reconciliations. (Note: In the past, interbank transfer schedules were traditionally prepared for five days before and after year end to detect “kiting.” Kiting is where a company shows a deposit-in-transit in one account, but does not show the deduction on the other account. Before the prevalence of electronic banking, it used to take several days for banks to process interbank transfers. So, this fraud scheme was possible. The purpose of the interbank test is to ensure all year-end transfers were recorded in each appropriate account before year-end, and all post year-end transfers were recorded in each appropriate account post year-end. Transfers not clearing the bank in the same accounting period should be shown as reconciling items on the bank reconciliations. Theoretically, interbank transfers should be tested through the bank reconciliation testing and a specific test is not necessary. If a deposit-in-transit is related to an interbank transfer, the auditor would simply ensure that there was an outstanding debit on the other account’s bank reconciliation. However, if there are numerous bank accounts with significant activity at year end, then the risk of kiting may substantiate a specific test of this nature. This is particularly true if there is a specific identified risk of fraud with cash. The auditor should challenge the need for this test, as well as the length of time before and after year-end that makes sense based on the bank’s typical timeline for processing interbank activity.)

12. Inquire whether amounts are designated for a special purpose. Cash restricted for special purposes should be segregated from cash available for general operations. If restricted cash offsets current liabilities, then it may be shown as a current asset. Otherwise, the amount is typically shown as a non-current asset. In some cases, restricted cash could have both a current and non-current portion.

13. Inquire about compensating balances (minimum balance requirements of loan agreements or debt service funds established by debt indentures) or other withdrawal restrictions. Compensating balance agreements should be disclosed if the agreement legally restricts the use of funds.

14. Inquire about related guarantees, endorsements, and/or letters of credit, including guarantee arrangements for related parties.

15. Determine proper classification of cash, cash equivalents, or other short-term investments. Items typically included as cash and cash equivalents include: non-interest-bearing cash on deposit with banks, interest-bearing time deposits, certificates of deposit, money market accounts, short-term investments with original maturities of three months or less, and repurchase agreements. Related footnote disclosures should be adequate to explain the nature of cash and cash equivalents.

16. Count material cash on hand.

17. Conclude whether procedures performed are adequate to respond to identified fraud risks.

18. Consider whether results of procedures indicate possible significant deficiencies or material weaknesses.

19. Conclude whether the results of procedures are sufficient to achieve audit objectives.
## Cash Lead Schedule

### Carr Parts Company

**Prepared by:**

**December 31, 20XX**

**Reviewed by:**

### STANDARD LEAD SCHEDULE: A  Cash & Cash Equivalents

<table>
<thead>
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<th>Account</th>
<th>Description</th>
<th>WP Ref</th>
<th>Prior Yr Dr (Cr)</th>
<th>Unadjusted 12/31/20XX Dr (Cr)</th>
<th>AJE Ref #</th>
<th>Adjusted 12/31/20XX Dr (Cr)</th>
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**TOTALS**

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<td>65,000.00</td>
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**Amount Dr (Cr)**

<p>| 48,750.00                    |</p>
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<td></td>
<td></td>
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<tr>
<td>Cash – Operating</td>
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</table>

| Balance per bank statement | | |
|---|---|
| as of 12/31/20XX | 50,100.00 |

| Deposits in transit | | |
|---|---|
| | 34,425.00 |
| | 84,525.00 |

| Less outstanding checks: | | |
|---|---|
| Number | Amount |
| 5025 | 3,000.00 |
| 6050 | 3,500.00 |
| 6052 | 7,500.00 |
| 6053 | 250.00 |
| 6054 | 10,750.00 |
| 6056 | 20,000.00 |
| Total o/s checks: | 45,000.00 |

| Less: Bank Charges | 25.00 |
| Bank Error #6020 | 1,000.00 |
| Total Other reconciling: | 1,025.00 |

| Balance per general ledger | 38,500.00 |
(Note: Please use this blank page for documenting audit procedures and results.)
<table>
<thead>
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<th></th>
<th>Cut-off</th>
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<td>Da Bank</td>
<td></td>
</tr>
<tr>
<td>P.O. Box 12345</td>
<td></td>
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<tr>
<td>Anytown, AS 55555</td>
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<td></td>
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<tr>
<td>Carr Parts Company</td>
<td></td>
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<tr>
<td>123 Anywhere Street</td>
<td></td>
</tr>
<tr>
<td>Anytown, AS 55555</td>
<td></td>
</tr>
<tr>
<td>A/C # 763218</td>
<td></td>
</tr>
<tr>
<td>Checking Account Summary for 1-1 through 1-14-20XY</td>
<td></td>
</tr>
<tr>
<td>Opening Balance</td>
<td>Deposits</td>
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<tr>
<td></td>
<td>Interest</td>
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<td></td>
<td>Withdrawals &amp; Checks</td>
</tr>
<tr>
<td></td>
<td>Service Charge</td>
</tr>
<tr>
<td></td>
<td>Closing Balance</td>
</tr>
<tr>
<td>50,100.00</td>
<td>54,425.00</td>
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<tr>
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<td>50,025.00</td>
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<td>DEPOSITS</td>
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<td>DATE</td>
<td>AMOUNT</td>
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<tr>
<td>7-Jan</td>
<td>10,000.00</td>
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<td>CHECKS</td>
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<td>AMOUNT</td>
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<td>500.00</td>
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<td>6058</td>
<td>1,500.00</td>
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<td>6060</td>
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<tr>
<td>6061</td>
<td>750.00</td>
</tr>
<tr>
<td>6062</td>
<td>3,250.00</td>
</tr>
</tbody>
</table>
Carr Parts Company  
123 Anywhere Street  
Anytown, AS  55555  
NON-NEGOTIABLE

PAY TO THE ORDER OF  
Vroom Vroom Motors  
$ 3,500.00

Three thousand five hundred and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS  
Norma Lee  
MEMO

12345678923456  76321826050

Endorse Here:

Vroom Vroom Motors  
2-Jan  
20XY

Carr Parts Company  
123 Anywhere Street  
Anytown, AS  55555  
NON-NEGOTIABLE

PAY TO THE ORDER OF  
Screws Loose Limited  
$ 7,500.00

Seven thousand five hundred and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS  
Norma Lee  
MEMO

12345678923456  76321826052

Endorse Here:

Screws Loose Limited  
2-Jan  
20XY
Carr Parts Company
123 Anywhere Street
Anytown, AS  55555

NON-NEGOTIABLE

PAY TO THE ORDER OF  
Supply Depot  

$ 250.00

Two hundred and fifty and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS

MEMO

Endorse Here:

Supply Depot

2-Jan

20XY

Carr Parts Company
123 Anywhere Street
Anytown, AS  55555

NON-NEGOTIABLE

PAY TO THE ORDER OF  
WM Enterprises  

$ 10,750.00

Ten thousand seven hundred fifty and 00/100…………………… DOLLARS

Da Bank, Anytown, AS

MEMO

Endorse Here:

Will Makit

Enterprises

5-Jan

20XY
Carr Parts Company
123 Anywhere Street
Anytown, AS 55555

NON-NEGOTIABLE

28-Dec 20XX

Slick Sam Used Car Sales
$20,000.00

PAY TO THE ORDER OF

Twenty thousand and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS

Norma Lee ___ ___

PAY TO THE ORDER OF

Iona Carr

Slick Sam Used Car Sales
2-Jan

Da Bank, Anytown, AS

Memo Used Car Sales

Endorse Here:

Slick Sam
2-Jan

Iona Carr
20XY

Carr Parts Company
123 Anywhere Street
Anytown, AS 55555

NON-NEGOTIABLE

2-Jan 20XY

Iona Carr
$500.00

PAY TO THE ORDER OF

Five hundred and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS

Norma Lee ___ ___

Expense Reimbursement

Memo Expense Reimbursement

Endorse Here:

Iona Carr
7-Jan

Iona Carr
20XY

19
Carr Parts Company  
123 Anywhere Street  
Anytown, AS  55555  
NON-NEGOTIABLE  

2-Jan  20XY  

PAY TO THE ORDER OF  
Engine Parts R US  

$ 1,500.00  

One thousand five hundred and 00/100……………………………………………… DOLLARS  

Da Bank, Anytown, AS  

Norma Lee  

Endorse Here:  

Engine Parts R US  
7-Jan  

20XY  

Carr Parts Company  
123 Anywhere Street  
Anytown, AS  55555  
NON-NEGOTIABLE  

2-Jan  20XY  

PAY TO THE ORDER OF  
Hoses and More  

$ 4,000.00  

Four thousand and 00/100……………………………………………… DOLLARS  

Da Bank, Anytown, AS  

Norma Lee  

Endorse Here:  

Hoses and More  
9-Jan  

20XY  

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Carr Parts Company
123 Anywhere Street
Anytown, AS  55555
NON-NEGOTIABLE

PAY TO THE ORDER OF Parts is Part, Inc. $ 2,500.00
Two thousand five hundred and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS
Norma Lee __________________________

MEMO

12345678923456 76321826060

Endorse Here:

Parts is Parts, Inc.
12-Jan
20XY

Carr Parts Company
123 Anywhere Street
Anytown, AS  55555
NON-NEGOTIABLE

PAY TO THE ORDER OF Anytown Telephone $ 750.00
Seven hundred fifty and 00/100……………………………………………… DOLLARS

Da Bank, Anytown, AS
Norma Lee __________________________

MEMO

12345678923456 76321826061

Endorse Here:

Anytown Telephone
12-Jan
20XY
Carr Parts Company
123 Anywhere Street
Anytown, AS  55555

PAY TO THE ORDER OF
Anytown Gas & Electric
$ 3,250.00
Three thousand two hundred fifty and 00/100

DOLLARS

Da Bank, Anytown, AS
Quarterly
MEMO
Bill
12345678923456    76321826062

Endorse Here:

Anytown Gas
12-Jan
20XY

Anytown Gas & Electric
Carr Parts Company
123 Anywhere Street
Anytown, AS 55555

December 27, 20XX

Da Bank
P.O. Box 12345
Anytown, AS 55555

In connection with an audit of our financial statements, please mail directly to Smart and Co., LLP, 345 Anywhere Street, Anytown, AS 55555, a cutoff bank statement for the period from January 1, 20XY, to January 14, 20XY, for the following account:

Operating  763218

Please include with the cutoff bank statement all checks, deposit slips, and documents supporting other charges or credits to the account. We sincerely appreciate your timely cooperation with this request and ask that extra precautions be made to ensure that the cutoff statement is routed directly to our auditors and not to our address.

Very truly yours,

Norma Lee
Norma Lee, CFO
STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

<table>
<thead>
<tr>
<th>Financial Institution's Name and Address</th>
<th>Carr Parts Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Da Bank P.O. Box 12345 Anytown, AS 55555</td>
<td>CUSTOMER NAME</td>
</tr>
</tbody>
</table>

We have provided to our accountants the following information as of the close of business on December 31, 20XX, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if, during the process of completing this confirmation, additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

<table>
<thead>
<tr>
<th>ACCOUNT NAME</th>
<th>ACCOUNT NO.</th>
<th>INTEREST RATE</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>763218</td>
<td>None</td>
<td>50,100.00</td>
</tr>
<tr>
<td>Savings</td>
<td>498494</td>
<td>.5%</td>
<td>10,050.00</td>
</tr>
<tr>
<td>Payroll</td>
<td>763219</td>
<td>None</td>
<td>750.00</td>
</tr>
</tbody>
</table>

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

<table>
<thead>
<tr>
<th>ACCOUNT NO./DESCRIPTION</th>
<th>BALANCE*</th>
<th>DATE DUE</th>
<th>INTEREST RATE</th>
<th>DATE THROUGH WHICH INTEREST IS PAID</th>
<th>DESCRIPTION OF COLLATERAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Line</td>
<td>500,000.00</td>
<td>Demand</td>
<td>Prime + 3</td>
<td>12/15/XX</td>
<td>All Assets Personal Guarantee of Iona Carr</td>
</tr>
</tbody>
</table>

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

Norma Lee  
(Customer’s Authorized Signature)  
12/27/20XX  
(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

Penny Lane  
(Financial Institution Authorized Signature)

Teller  
(Title)

**EXCEPTIONS AND/OR COMMENTS**

Please return this form directly to our accountants:  
Attn: Smart & Co., LLP  
Certified Public Accountants & Business Consultants  
345 Anywhere Street  
Anytown, AS 55555

*Ordinarily balances are intentionally left blank if they are not available at the time the form is prepared.
<table>
<thead>
<tr>
<th>Number</th>
<th>Amount</th>
<th>Number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7785</td>
<td>750.00</td>
<td>7891</td>
<td>void</td>
</tr>
</tbody>
</table>

Balance per bank statement: 750.00

Deposits in transit: 0.00

Less Outstanding Checks:

Balance per general ledger: 0.00
Da Bank  
P.O. Box 12345  
Anytown, AS  55555  

Carr Parts Company  
123 Anywhere Street  
Anytown, AS  55555  

A/C # 763219  

Payroll Account Summary for 1-1 through 1-31-20XY  

<table>
<thead>
<tr>
<th>Opening Balance</th>
<th>Deposits</th>
<th>Interest</th>
<th>Withdrawals &amp; Checks</th>
<th>Service Charge</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>750.00</td>
<td>19,123.90</td>
<td>0.00</td>
<td>19,123.90</td>
<td>0.00</td>
<td>750.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEPOSITS</th>
<th>DATE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17-Jan</td>
<td>9,561.95</td>
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<tr>
<td></td>
<td>31-Jan</td>
<td>9,561.95</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>CHECKS &amp; OTHER DISBURSEMENTS:</th>
<th>NUMBER</th>
<th>AMOUNT</th>
<th>NUMBER</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7893</td>
<td>471.67</td>
<td>7906</td>
<td>471.67</td>
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<td>7894</td>
<td>478.76</td>
<td>7907</td>
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<td>7895</td>
<td>606.14</td>
<td>7908</td>
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<tr>
<td>P.O. Box 12345</td>
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<tr>
<td>Anytown, AS 55555</td>
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</tr>
<tr>
<td>Carr Parts Company</td>
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</tr>
<tr>
<td>123 Anywhere Street</td>
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<tr>
<td>A/C # 498494</td>
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<tr>
<td>Savings Account Summary for 12-1 through 12-31-20XX</td>
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</table>

<table>
<thead>
<tr>
<th>Opening Balance</th>
<th>Deposits</th>
<th>Interest</th>
<th>Withdrawals &amp; Checks</th>
<th>Service Charge</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000.00</td>
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<td>0.00</td>
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<table>
<thead>
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<th>DEPOSITS &amp; OTHER ADDITIONS</th>
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<td>AMOUNT</td>
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<td>31-Dec</td>
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</table>

<table>
<thead>
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<th>CHECKS &amp; OTHER DEDUCTIONS</th>
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