



Accounts Receivable – Improve Your Analysis

Introduction

IDEA is an easy to use software tool which allows an accountant to work directly with the client's data in its raw form - not summarized in a report. This gives the accountant much greater insight into the client's business by viewing the business at its lowest kernel of activity - the transaction. IDEA can then be used to analyze the data and produce summarized reports.

Before undertaking an engagement, accountants should include as part of their planning, consideration as to whether IDEA would be a suitable tool for a particular engagement or client. Success factors include:

- Sufficient transaction volume and detail. For Accounts Receivable, the IDEA Workbook recommends a minimum of 200 accounts and 1,000 transactions.
- The ability to easily acquire copies of the client data. IDEA comes with a number of tools to assist the user in acquiring appropriate data including direct import of popular small business accounting packages such as Simply Accounting and QuickBooks.
- Properly trained and equipped staff. While IDEA is consistently rated highly for its ease of use, it is recommended that staff participate in either a 2-day introductory course or complete the self-study program in the IDEA Workbook. Engagement staff will need appropriate hardware as specified in IDEA's minimum system requirements provided at the end of this article.

If these success factors are present, IDEA can help you improve the quality and efficiency of your work, and add value to your work for your client.

Types of Files

The files available vary with the accounting software used by the client. Examples of files related to accounts receivable include invoice registers, cash receipts registers, accounts receivable subledgers and customer master files. If there is no direct import available for these files in IDEA, the data can often be exported in an easily readable format such as Excel, dBase or ASCII. In addition, you can request customer statements for a period, printed to a file (.prn) or Acrobat (.pdf) instead of a printer. You can then use IDEA's Report Reader module to select the relevant data from the statements and import that into IDEA.

Meeting Objectives

Accountants can use IDEA to meet key audit objectives for Accounts Receivable: valuation, accuracy, completeness, existence, validity and cut-off. IDEA can also be useful in performing analytical review procedures required for a review engagement. Under each of the headings, we have provided some simple examples of IDEA tests that could be applied.

Validity

There are several tests that can be performed to test the existence and validity of accounts receivable. The auditor should perform an aging of the accounts, comparing it to that of the client's, if available. Old accounts and variances with the client's calculation should be noted for follow-up. Accounts matching specified criteria - age or size, for example - can be selected for confirmation. One of IDEA's five sampling methods can also be used for the confirmation selection. The IDEA data file of the selected accounts can be easily exported to your standard confirmation letter. Other tests include checking the account balances against credit limits held in a customer master file, testing for part payments or unmatched items and identifying accounts with no recent activity.

Accuracy

Individual accounts can be totaled and agreed to the general ledger balance. Transactions can be summarized by customer and agreed to the subledger. Invoices calculations such as extensions and sales tax can be tested. Variations from the price list can be identified.

Completeness

IDEA's Gap Detection function can easily scan the file for missing invoices or any other items in a numerical sequence. Gap Detection can also be applied to any character or date field where appropriate. Transaction or account files can be joined with master files to determine if there are transactions or accounts with no master record. Customers with no transaction activity could also be followed up.

Valuation

You can use the Duplicate Detection function to look for duplicate invoices or other transactions.

Cut-off

IDEA Field Statistics View will show you at a glance the Earliest and Latest Date for all the transactions in the file. You can also extract all items which fall outside of a specified date range.

Analytical Procedures

Accounts receivable can be compared to the prior year's balances, noting customers with increased or decreased activity. You can use the Stratification function to examine ranges of values such as invoice totals. You can also use the Summarization function to accumulate totals by product number, customer postal codes or salesperson. IDEA's Pivot Table enables you to easily perform multi-dimensional analysis of these types of variables.

There are other tests which can be performed on accounts receivable data, but these would mostly be used in a fraud investigation or where a fraud or other problem was suspected.

Conclusion

Many of the tests described above would be almost impossible to perform manually. Even if a similar test was performed manually or using a generic tool like Excel, the time costs would be excessive on data files of any significant size. As one auditor recently said at an IDEA User Group, "IDEA has allowed us to take our auditing into the 21st century".

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