

I-04.04

Auditors frequently discover errors relating to recording and adjusting journal entries, and they must be able to clearly explain the necessary corrections to their clients in a nonconfrontational fashion.

The partners at the audit firm of Kumar & Kumar routinely request feedback from clients at the close of an audit, and have been getting some negative feedback. The comments include "staff lacks diplomacy when pointing out errors" and "inability to clearly explain proposed adjustments." Karthick Praveen is an audit manager with the firm of Kumar & Kumar, and has been tasked with preparing a training seminar for new staff in how to prepare and present proposed adjustments. Karthick developed the following six illustrations:

ITEM #1				
Date	Accounts	Debit	Credit	
30-Jun	Supplies Expense	10,000		
	Cash		10,000	
	<i>Purchased computers with a three-year life and no salvage value</i>			

ITEM #2				
Date	Accounts	Debit	Credit	
15-Apr	Cash	10,000		
	Revenues		10,000	
	<i>Collected customer deposits for future services</i>			
31-Dec	Revenues	2,500		
	Unearned Revenues		2,500	
	<i>Completion of 25% of services provided under Apr. 15 agreement</i>			

ITEM #3				
Date	Accounts	Debit	Credit	
30-Sep	Prepaid Insurance	3,000		
	Insurance Expense		3,000	
	<i>Purchased for cash a 1-year insurance policy; coverage commences on Oct. 1</i>			

ITEM #4				
Date	Accounts	Debit	Credit	
4-Jan	Wages Expense	2,400		
	Cash		2,400	
	<i>Paid wages, \$1,000 of which was properly accrued at the end of the prior year</i>			

ITEM #5				
Date	Accounts	Debit	Credit	
1-Aug	Advertising Expense	9,000		
	Cash		9,000	
	<i>Purchased a 9-month advertising campaign from a local newspaper running from Sept. 1 to May 30</i>			

ITEM #6				
Date	Accounts	Debit	Credit	
31-Dec	Utilities Expense	2,500		
	Utilities Payable		250	
	<i>Recorded \$2,500 of estimated utilities cost for December</i>			

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Divide your class into six teams. Each team is to prepare the necessary adjusting/correcting entry(ies) related to one of the errors and present their solution to the class as though they are auditors making a presentation to their client. For each error, assume that your corrections are as of the calendar year end. Unless shown, assume that no additional entries were recorded during the year related to the item in question.

The goal will be diplomacy and clarity of explanation. At the end of each presentation, by show of hands, measure how many classmates believe the team was able to effectively and correctly explain their proposed correction. At the conclusion of the presentations, discuss elements that went well or poorly.