17-26 **(Substantive tests and disclosures for long-term debt)** Andrews, CPA, has been engaged

to audit the financial statements of Broadwall Corporation for the year ended December 31,

20X1. During the year, Broadwall obtained a long-term loan from a local bank pursuant to

a financing agreement that provided that the

1. Loan was to be secured by the company’s inventory and accounts receivable.

2. Company was to maintain a debt-to-equity ratio not to exceed two to one.

3. Company was not to pay dividends without permission from the bank.

4. Monthly installment payments were to commence July 1, 20X1.

In addition, during the year the company also borrowed, on a short-term basis, from the

president of the company, including substantial amounts just prior to the year-end.

**Required**

a. For purposes of Andrews’ audit of the financial statements of Broadwall Corporation,

what substantive tests should Andrews employ in examining the described loans? Do

not discuss internal control.

b. What are the financial statement disclosures that Andrews should expect to find with

respect to the loans from the president?

AICPA