Over this past year, it has been determined there may be some control issues in each of the major transaction cycles. Here is a chart of each cycle with the areas of concern identified.

|  |  |
| --- | --- |
|  | AREAS OF CONCERN |
| The procurement and payment cycle | There were 5000 purchase orders totaling $45 million for raw material. There is a concern that not all purchases were completed using formal purchases orders, receipts did not match to payment authorizations, and there were missing purchases orders. |
| The capital acquisition and repayment cycle | Two capital projects totaling $1.5 million may have been overspent by $500,000 and not reflected in the reported capital spending. |
| The sales and cash receipt cycle | There are 15,746 invoices totaling $122 million in sales. There are unauthorized discounts applied to invoices, credit terms applied to invoices may be incorrect, and invoice sequence numbering may not be accounted for. |
| The accounting for inventory | There are 5,000 SKU's totaling $21 million. Physical inventories reported inventory losses of $300,000. |

Determine the appropriate methodology for designing tests of controls and substantive tests of transactions. Your work should be in the form of a chart with the following column headings:

|  |  |  |  |
| --- | --- | --- | --- |
| **TRANSACTION-RELATED AUDIT OBJECTIVE** | **KEY INTERNAL CONTROLS** | **COMMON TESTS OF CONTROL** | The methodology developed for each transaction cycle should address the control issues listed above and be presented to the group for discussion and final agreement.   Group Deliverable:  In preparation for the year-end audit at TPC, your team will create a presentation to management members, for their approval, proposing the methodology for designing tests of controls and substantive tests of transactions for each of the four major transaction cycles. The presentation should include the team's agreement on addressing the identified control issues. |

**I need the attached blank transaction cycle chart completed for the accounting for inventory section only.**

**ORIGINAL SCENARIO:**

Tree Pharmaceutical Company (TPC) is a large pharmaceutical company with three divisions in the United States.

* The first division, B&D Chemical Company, is the original company and makes liquid prescription medications.
* When the second division, Proactive Pharmaceutical Company, was acquired 15-years ago, TPC was incorporated. Proactive makes over-the-counter cold medications.
* The third division, Best Medical Supply, was acquired by TPC about 2 years ago and makes intravenous drugs used in hospitals.

Each of these divisions supplies its products to medical wholesalers who supply a large number of pharmacies and hospitals. Each of the three divisions has been very profitable in recent years.

You are in the auditing department at TPC's headquarters and are preparing for the year-end external audit scheduled for February. Management is concerned about the possibility of any misstatements of financial information provided by the three divisions. Management is also concerned about transactional controls in the procurement and payment cycle, the accounting for inventory, the capital acquisition and repayment cycle, and the sales and cash receipt cycle.