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## ACC 700 Milestone Two Guidelines and Rubric

The second milestone is a rough draft of the second artifact for your professional portfolio, a sample audit. The sample audit will include a business risk analysis, the sample audit program, and the report of recommendations. This will be graded using the rubric at the end of this page. This is an opportunity for you to organize your thoughts and receive feedback from your instructor for the final submission. Note that the requirements for this milestone are less demanding than those for the final submission. Once you have submitted this milestone and received feedback, you will have the opportunity to incorporate this feedback and complete the artifact by meeting the submission requirements found in the Final Project Guidelines and Rubric.

### **Newham Company Information**

Newham Company is a publicly traded company operating in the “personal product” industry. Newham manufactures cosmetic products that are sold to large department chain stores, such as Target and Walmart, to be sold and distributed to the final consumer. Newham Company is listed on the New York Stock Exchange (NYSE) under the ticker symbol REV (REV – NYSE) and Avon Products, Inc. (AVP - NYSE).

Newham Company has experienced steady growth over the past several years. Recently, there has been a change in executive management and CFO. The change was sparked by questionable bonus payments that were paid to the executive management team based on sales. In addition, a recent lawsuit has been filed based on claims that a new product was not properly advertised, leading to negative customer reactions.

### **Sales and Accounts Receivable**

A sample of weekly sales invoices shall be analyzed from the sales report by product category. All sales are on account. Sales are categorized into four categories: cosmetics, skin care, fragrance, and personal care. Charges to customer accounts should be dated with the date of sale.

Sales invoices are prepared in batches on a daily basis using numbered sales invoices. Sales invoice numbers are automatically generated by the computer system. The accounts receivable clerk does not have appropriate computer rights to override the computer-generated sales invoice numbers. When preparing sales invoices, the accounts receivable clerk verifies that the first invoice number of the batch is consistent with the previous batch. Inconsistencies or skipped sales invoice numbers are investigated and resolved before new sales invoices are prepared. Sales invoices are compared to the items billed for proper quantity, price, and other sales order terms.

The accounting department supervisor compares and reconciles a copy of the daily sales invoice batch report to the daily account posting report for individual accounts. The daily account posting report is prepared and sent by the accounts receivable department. Discrepancies are investigated to help assure that the customer subsidiary accounts are posted for the same total amount posted to the control account.

At the end of each month, the total of the trial balance of customer account balances (prepared by the accounts receivable department) is compared to the total of the general ledger control account by the accounting department supervisor.

Sales invoice batches are dated with the date of shipment, and totals of each batch are accumulated each month and recorded in the sales journal, which is used to post to the sales control and sales revenue accounts. The accounting department supervisor approves all monthly summary entries before posting.

The controller approves all cash refunds and allowance credit memos for sales returns, after initiation by customer service.

### **Cash Management**

The monthly bank statements are mailed to the controller's office. Duplicate deposit slips are retained and used when bank deposits are recorded in the cash receipts journal listing, and the cash disbursements listing to reconcile the general bank accounts. The payroll bank account is also reconciled and retained by the controller's office.

The assistant controller oversees all cash management and activity, including the performance of the bank account reconciliation for the company. The assistant controller compares the cash receipts journal and daily deposit records with the bank deposits and bank account reconciliation.

Internal auditors will randomly review the bank account reconciliations.

### **Cash Receipts and Accounts Receivable Processing**

All cash receipts from customers related to sales are credited to accounts receivable individual and control accounts. Cash receipts are processed by the office secretary. The office secretary prepares the cash receipt listing and daily deposit. A copy of the cash receipt listing and the remittance advice slip is sent to the controller's office. Another copy of the cash receipt listing and the remittance advice are sent to the accounts receivable department.

The accounts receivable department posts credits to individual customer accounts, dating the entries with the date of the remittance advice listing received.

Statements of accounts receivable balances are mailed to customers each month by the accounts receivable accounting department. Any disputes or differences shall be handled by customer service.

## Cash Disbursements

All disbursements are made by check, signed by the controller.

### Artifact Two: Sample Audit Program

Your second portfolio artifact will be the professional audit program based on PCAOB audit standards that you create for Newham LLC, S.N.H.U, LLC. Make sure to incorporate the feedback you receive from your instructor while developing this audit program. The following items are included:

- **Business Risk Analysis:** Identifying risk in an organization and the environment in which it operates is the first step in designing an effective audit program. To analyze business risk, you must:
  - Gain an understanding of Newham
  - Investigate the industry in which Newham operates
  - Analyze and assess the risk, including fraud, involved in the company and industry
  - Identify the relevant PCAOB audit standards and address their relevance to the Newham audit risk assessment

- **Sample Audit Program:** An audit program involves compiling a list (program) of procedures for the auditors to perform to provide reasonable assurance that internal controls are operating properly and thus producing accurate financial statements. In your audit program, you have been provided with tests of control in revenue and inventory.

You must identify the relevant PCAOB audit standards and address their relevance to the Newham audit program. Include the following in your report on Newham.

- **Report of Recommendations:** Based on an auditor's experiences and knowledge of accounting, finance, and common law, it is the duty of an auditor to provide recommendations. The sample audit program addressed here is merely a small sample, not a complete audit. Recommendations for further risk analysis, sample methods, and other concerns should be offered. In your report of findings, the new audit team, include the following sections:
  - Explanation of findings in the risk analysis
  - Sarbanes–Oxley concerns or requirements
  - Recommendations on appropriate sampling methods
  - Recommendations for preparation and success in the external audit

**Guidelines for Submission:** Your paper must be submitted as a two- to three-page Microsoft Word document with double spaced lines, 12-point font, one-inch margins, and at least three sources cited in APA format. Round all answers up to the nearest dollar value in any calculations.

Note that this milestone is a rough draft and the submission guidelines are different for the final project. The final paper will be due at the end of the semester and must include at least seven sources. Refer to the submission guidelines in the Final Project Guidelines and Rubric document.

**Instructor Feedback:** This activity uses an integrated rubric in Blackboard. Students can view instructor feedback in the Grade Center. For more information, review [these instructions](#).

Critical Elements	Proficient (100%)	Not Proficient (0%)
<b>Business Risk Analysis</b>	Identifies risk in the organization and the environment in which it operates; clearly shows an understanding of Newham and the industry; assesses risk and identifies any relevant PCAOB audit standards	Does not identify risk in the organization or the environment in which it operates; does not show an understanding of the industry; does not assess risk or identify relevant audit standards
<b>Sample Audit Program</b>	Identifies the relevant PCAOB audit standards and addresses their relevance to the Newham audit program	Does not identify the relevant PCAOB audit standards or address their relevance to the Newham audit program
<b>Report of Recommendations</b>	Provides recommendations as to explanation of findings, Sarbanes–Oxley concerns, appropriate sampling methods, and the external audit	Does not provide recommendations as to explanation of findings, Sarbanes–Oxley concerns, appropriate sampling methods, or the external audit
<b>Articulation of Response</b>	Submission has no major errors related to citations, grammar, spelling, syntax, or organization	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent the reader from understanding the ideas



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