

What are Substantive Audit Procedures?

Worksheet

Substantive procedures are audit procedures designed to detect material misstatements at the assertion level, consisting of substantive analytical procedures and tests of detail; they must always be performed for material classes of transactions, balances, and disclosures.

Questions

1. What is the main purpose of substantive procedures?

- A) To test the design of internal controls
- B) To directly detect material misstatements
- C) To draft the financial statements
- D) To assess management's integrity

2. Expected COGS is \$800,000; actual recorded COGS is \$840,000. What is the variance %?

- A) 4%
- B) 5%
- C) 40%
- D) 0.5%

3. Which of these is a test of detail rather than an analytical procedure?

- A) Comparing gross margin to the prior year
- B) Confirming a bank balance with the bank
- C) Reviewing payroll expense as a % of revenue
- D) Comparing utility expense to budget

4. Can substantive procedures be entirely skipped if controls are assessed as strong?

- A) Yes, always
- B) Yes, for immaterial items only
- C) No, some substantive procedures are always required for material balances
- D) No, only tests of detail can ever be skipped

5. The auditor expects interest expense of \$500,000 based on average debt and rate. Recorded interest expense is \$550,000. Is further investigation needed if the threshold is 5%?

6. Expected depreciation expense is \$120,000; recorded is \$124,000. Threshold for investigation is 8%.

7. For accounts receivable, the auditor selects a sample of customer balances and sends confirmation letters directly to customers. What type of substantive procedure is this?

8. Define: What are substantive procedures?

9. Define: What are the two categories of substantive procedures?

10. Define: When is substantive analytical procedure most efficient?

Answer Key

1. B) To directly detect material misstatements - Substantive procedures gather direct evidence about whether balances are materially correct.
2. B) $5\% - |840,000-800,000|/800,000 \cdot 100 = 40,000/800,000 \cdot 100 = 5\%$.
3. B) Confirming a bank balance with the bank - Bank confirmation directly verifies an individual balance - that's a test of detail.
4. C) No, some substantive procedures are always required for material balances - Regardless of control strength, auditing standards require substantive procedures for material transaction classes and balances.
5. Variance % = $|550,000 - 500,000| / 500,000 \cdot 100 = 50,000/500,000 \cdot 100 = 10\%$ $10\% > 5\%$ threshold yes, investigate the difference
6. Variance % = $|124,000 - 120,000| / 120,000 \cdot 100 = 4,000/120,000 \cdot 100 = 3.33\%$ $3.33\% < 8\%$ within threshold, no further investigation needed
7. This directly examines individual balances rather than comparing to an expectation It is a test of detail - specifically, external confirmation
8. Audit procedures designed to directly detect material misstatements in balances, transactions, and disclosures.
9. Substantive analytical procedures and tests of detail.
10. When account relationships are predictable and stable, like rent, depreciation, or payroll.

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