💼 Inside the Audit: Part 1 — Revenue

Objective:
To verify whether the revenue reported by the company is accurate, complete, and recorded in the correct period as per Accounting Standard / Ind AS.

Step 1: Control Testing (Check Internal Controls)

Purpose: To confirm if there are adequate controls before recording revenue.
- Perform a walkthrough, understand how sales happen - from Order → Dispatch → Invoice → Receipt.
- follow one sales transaction from start to accounting entry.
- Identify risks and controls designed to mitigate those risks such as:
1. Invoice generated only after dispatch entry.
2. Credit approval before order confirmation.
3. Price and discount controls or maker-checker approval.
4. Daily reconciliation of dispatch vs. sales register.

Step 2: Substantive Testing (Detailed Revenue Verification)

A) Obtain and verify population:
1. Download sales register (GL or sub-ledger) for the full year.
2. Tie total revenue to Trial Balance and Financial Statements.
3. Confirm invoice series continuity and check for missing or duplicate invoices.

1. Occurrence (Transactions recorded actually happened):
- Pick invoices - verify with dispatch note & customer PO/agreement.
- For services - check completion report / timesheet.
- For exports - verify shipping bill, bill of lading, and foreign inward remittance certificate (FIRC).
- Always tie the sale to 3-way matching: PO → Dispatch → Invoice.

2. Completeness (All transactions that should be recorded are included):
- Start from dispatch register → trace to invoices.
- For unbilled revenue – verify dispatch or service completion done before year-end but invoice raised later.
- Ensure accrual is recorded properly in unbilled revenue account.
-Tie total revenue from sales register to Trial Balance and Financial Statements.
-Reconcile sales register with GSTR-1 and GSTR-3B to ensure all taxable sales are recorded and reported correctly.
- It is also tested at the time of physical verification by "reverse tracing (Floor to sheet)" – from source (dispatch) to recording (invoice).

Step 2: Substantive Testing (Detailed Revenue Verification) (Cont.)

3. Accuracy (Amounts are recorded correctly) :

- Recalculate invoice amount, tax, and discounts.
- Match price with approved price list or contract.
- Any manual override, check that same is approved in line with authority matrix.

4. Cut-off (Transactions recorded in the correct accounting period.) :

- Test dispatches and invoices 3 days before & after year end.
- For pre year end dispatches - Confirm ownership transfer as per delivery terms (FOB/CIF).
- For post year end dispatches - Ensure no invoice dated before dispatch (i.e., no premature revenue).
- For services, ensure milestones are achieved before recognition.

5. Unearned Revenue (Deferred Income):

- For advance billing where service/delivery not completed, ensure it is shown as unearned revenue (liability).
- Review contracts to check the timing of performance obligation satisfaction.

6. Rights & Obligations:

- Check that if company acts as principal (Gross Revenue is recoreded) & as a agent (Net
- Review contract clauses for transfer of risks and ownership.

B. Analytical Review

- Compare yearly sales trends and gross profit margins for unusual changes.
- Review major revenue variances and validate them with management explanations and post year end collections.
- Check manual revenue entries near year-end for any unusual adjustments.
- Prepare a customer wise analysis to track changes in the top 10 customers versus last year.

Concept clarity byte 💡

Particulars	Service Status	Billing Status	Cash Receipt Status	Accounting Treatment / Nature
Unbilled Revenue	✅ Services already rendered	❌ Billing not yet raised	💰 May or may not be received	Revenue has been earned but not yet billed. Recognized as asset (contract asset).
				Current Asset – "Unbilled Revenue".
Unearned Revenue (or Deferred Revenue)	❌ Services not yet rendered	✅ Billing already done	💰 May or may not be received	Revenue is not yet earned though billed; recognized as liability until service is provided.
				Current Liability – "Unearned Revenue".
Advance from Customers	❌ Services not yet rendered	❌ Billing not yet raised	✅ Cash already received	Represents advance payment for future services; no revenue recognized until service is performed and billing done.
				Current Liability – "Advance from Customers"