

Inside the Audit: Part 2- Other Income

Objective:

To verify that all components of Other Income are correctly recorded and supported. This helps ensure the financial statements present a true and fair view.

1) Tests of Controls (if relying on controls)

- Walkthrough and document process: how other income is initiated, authorized, recorded and reported.
- Test control design & operating effectiveness (e.g., approval of contracts, reconciliations between bank and GL, review of journal entries).
- If controls are effective, scale substantive testing accordingly.

2) Understand what's in "Other Income"

- List line items: interest income (on fixed deposit, income tax refund, loan given), dividend, rental income, government grants, profit/(loss) on sale of assets/investments, foreign exchange gains, insurance claims, miscellaneous receipts.
- Read GL & sub-ledgers, identify significant or unusual items, and map to contracts/agreements.

3) Existence / Occurrence – Did the income actually arise?

- Vouch material items to source documents: bank remittance advices, investment statements, rent receipts, contracts, sale invoices, sale agreements.
- For interest/dividend, obtain broker statements, bank advices or confirmations from payors.
- For gains on sale, check signed sale/purchase agreements, receipts, and board approvals.
- For foreign exchange gains, re-perform FX computation on transaction dates.

4) Completeness – Is any other income missing?

- Perform analytic review (current vs prior year, budget, revenue trends). Investigate unexplained variances.
- Reconcile bank deposit walkthroughs to GL – trace unidentified deposits to income or other accounts.
- Review subsequent period receipts for amounts that relate to the year under audit (cutoff testing overlap helps completeness).
- Inspect management representation and minutes for agreements that might generate income not yet recorded.

5) Accuracy / Valuation / Allocation – Is the amount correct?

- Recalculate interest/dividend computations. Check rates and time periods.
- For gains, Recalculate proceeds less carrying amount; verify carrying amount via fixed asset register or investment cost basis.
- For forex, confirm spot/contract rates used; re-compute gains/losses.
- For government grants, verify recognition criteria (conditions met) and measurement basis.

6) Cut-off – Recorded in correct period

- Test transactions near year-end (7–15 days before and after year-end). Verify supporting docs date and receipt date.
- For accruals (e.g., rent earned but not received) ensure matching income is recorded to period earned.

7) Classification / Presentation – Is it in the right line item & disclosed properly?

- Ensure unusual or non-recurring items (e.g., one-off gain on sale) are not hiding within operating income.
- Check notes for break-down of other income by nature and significant items per accounting standards.
- Confirm management applied appropriate policy for presentation (consistent with prior year or clearly explained).

8) Rights & Obligations / Cut-through – Are amounts the entity's to recognize?

- Check contracts/agreements to ensure income is not on behalf of others (agency vs principal).
- Confirm third-party receipts aren't being recorded as the entity's income.

9) Disclosure & Compliance

- Verify required disclosures in notes (nature, amount, any restrictions).
- For tax-sensitive items (e.g., forfeited deposits, government grants), ensure tax treatment is discussed and contingent liabilities are considered.
- Cross-reference income items to income tax working papers and management representation.

10) Substantive Procedures – Examples

- Analytical procedures: ratio analysis, trend analysis, margin checks against main revenue streams.
- Confirmation: obtain confirmations from counterparties for material items (e.g., large interest/dividend vendor).
- Cut-off and event testing for items recorded near year-end.
- Inspect board minutes for approvals supporting large disposals/gains.

11) Sampling & Materiality

- Focus on material items and high-risk or unusual transactions. Scale sample sizes based on assessed risk.
- Document rationale for chosen samples and conclusions.

12) Documentation & Workpapers

- Keep clear cross-references: GL line → source document → recomputation → conclusion.
- Write a short memo for any judgmental items: why recognized, measurement basis, disclosures, and tax implications.
- Include copies of key agreements, confirmations and minutes.

13) Common red flags

- Large "miscellaneous" single entries without support.
- Income recorded right before year-end with no cash movement.
- Reclassifications from operating items into other income to manipulate margins.
- Incomplete reconciliation between bank receipts and GL.