



VARZA SCHOOL · THE FOUNDATIONAL 100

Evidence before Entry: Source Documents, References, and the Audit Trail

Chapter 27 · Track 3 — The Language and Logic of Accounting

THE QUESTION IT ANSWERS

What evidence is sufficient to convert a claim about an event into a reliable accounting record?

CONCEPTS DEFINED

Source document · Transaction reference · Audit trail · Economic event · Journal entry · Approval · Record retention · Fraud risk

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track introduces accounting as a disciplined language. It explains how real events become structured records and how those records preserve the financial memory of an organization. The emphasis is not memorizing debit and credit rules in isolation; it is understanding why the system remains balanced and traceable.

Central question: What evidence is sufficient to convert a claim about an event into a reliable accounting record?

Evidence quality depends on origin, completeness, authenticity, relevance, timing, and consistency. An accounting entry should point to the event and authorization that justify it, while the audit trail should preserve every material transformation from source to report.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish source document in plain and professional language.
- Define and distinguish transaction reference in plain and professional language.
- Define and distinguish audit trail in plain and professional language.
- Define and distinguish economic event in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor

requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Source document

Working definition. Source document is the original or authoritative evidence that an event occurred and describes its material terms.

Evidence may be physical or digital and can include contracts, orders, delivery records, invoices, receipts, bank records, approvals, or measured observations. The concept should be measured at the smallest level that still supports a real action.

Simple example. A signed delivery record supports quantity and timing before an invoice is recognized.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Transaction reference

Working definition. Transaction reference is a stable identifier that links related documents, records, communications, and events.

References reduce duplicate processing and make the audit trail navigable across systems. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A purchase order number appears on the goods receipt, supplier invoice, accounting entry, and payment record.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Audit trail

Working definition. Audit trail is the chronological and relational evidence that allows a reported amount or system state to be traced back to authorization, source, calculation, and subsequent changes.

An audit trail should show who did what, when, under which authority, and what existed before the change. This is where operational activity and financial reporting meet.

Simple example. A credit note retains the original invoice link, reason, approver, affected stock, tax adjustment, and posting.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Economic event

Working definition. Economic event is an occurrence or change that affects, or may affect, resources, obligations, ownership interests, performance, cash, commitments, or risk.

Start with the event before choosing the document or account. One event can create several accounting and operational consequences. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Receiving goods creates custody and possibly inventory before the supplier invoice arrives.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Journal entry

Working definition. Journal entry is a dated and referenced set of balanced debit and credit lines recording the financial effect of an event.

A journal entry should explain the event, not merely force equality. Every line needs account, amount, currency, dimensions, evidence, and purpose where relevant. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A credit sale debits accounts receivable and credits revenue, with separate tax and cost entries where applicable.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Approval

Working definition. Approval is an accountable decision authorizing a proposed action after required evidence and conditions have been reviewed.

Approval is not a decorative click. The approver needs authority, information, independence where relevant, and a recorded basis. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A purchase order above CU 25,000 requires finance and operating approval before commitment.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept

may still be useful for discussion, but it is not yet decision-ready information.

7. Record retention

Working definition. Record retention is the controlled preservation of documents and data for operational, legal, tax, audit, contractual, and historical purposes.

Retention rules should specify content, format, integrity, location, access, duration, legal hold, and secure disposal. The concept should be measured at the smallest level that still supports a real action.

Simple example. Invoices and supporting delivery evidence are retained according to the longest applicable requirement.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Fraud risk

Working definition. Fraud risk is the possibility of intentional deception, concealment, override, misappropriation, or manipulation for improper benefit.

Fraud analysis considers incentive or pressure, opportunity, rationalization, collusion, technology, and management override. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A fictitious supplier controlled by an employee can bypass ordinary invoice review if master-data controls are weak.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Source document, Transaction reference, Audit trail, Economic event, Journal entry, Approval, Record retention, and Fraud risk describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Quantitative model

This chapter does not depend on a single universal formula. Use a structured model instead: define the unit of analysis, identify relevant inflows and outflows, place them on a timeline, state assumptions, and test at least one adverse scenario. A formula becomes trustworthy only after its inputs and boundaries are trustworthy.

Worked case — An invoice that should not yet be paid

A supplier emails a CU 45,000 invoice with a valid purchase-order number, but the receiving system shows no receipt.

Item	Amount or observation
Purchase order	approved for CU 45,000
Supplier invoice	matches price and description
Goods receipt	missing
Supplier bank account	changed on invoice
Request	urgent same-day payment

Calculation and reasoning

1. The purchase order proves authorization to buy, not receipt or payment entitlement.
2. Obtain independent receiving evidence and investigate whether goods are in transit, rejected, or never sent.
3. Verify changed bank details through a trusted contact or controlled supplier portal, not the email requesting payment.
4. Record the exception, approver, and resolution; do not create false receipt evidence merely to pass the system control.

What the result means

The document appears plausible but combines two classic risk signals: missing performance evidence and changed bank instructions. Evidence before entry protects both accounting completeness and cash custody.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Define required evidence by event type, value, risk, and jurisdiction.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Validate party, date, quantity, amount, terms, and authenticity before entry.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Link every derived record through stable references.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Protect original versions and record corrections, overrides, and retention status.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes `source_document`, `document_version`, `transaction_reference`, `approval`, `journal_entry`, `change_log`, `attachment`, `retention_rule`, `exception`. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.
- Turn information into a decision, a control, or a question; otherwise it is only decoration.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Duplicate document and reference detection.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Independent verification for changed bank details and unusual documents.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Immutable or tamper-evident logs for posted records and approvals.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Accepting an invoice as proof that goods arrived

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Uploading a screenshot without source, date, or context

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Replacing an original document after correction instead of retaining versions

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Allowing manual journal descriptions such as 'adjustment' without an explanation and support

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain source document in plain language and in professional terms?
- ☐ Can I explain transaction reference in plain language and in professional terms?

- ☐ Can I explain audit trail in plain language and in professional terms?
- ☐ Can I explain economic event in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Source document to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Transaction reference. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Audit trail could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Transaction reference: a stable identifier that links related documents, records, communications, and events.",
    "Audit trail: the chronological and relational evidence that allows a reported amount or system state to be traced back to authorization, source, calculation, and subsequent changes.",
    "Economic event: an occurrence or change that affects, or may affect, resources, obligations, ownership interests, performance, cash, commitments, or risk.",
    "Journal entry: a dated and referenced set of balanced debit and credit lines recording the financial effect of an event.",
    "Approval: an accountable decision authorizing a proposed action after required evidence and conditions have been reviewed.",
    "Record retention: the controlled preservation of documents and data for operational, legal, tax, audit, contractual, and historical purposes.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S201 — International Ethics Standards Board for Accountants, *2025 Handbook of the International Code of Ethics for Professional Accountants***. 2025-10-07. Integrity, objectivity, competence, confidentiality and professional behavior. Source: <https://www.ethicsboard.org/publications/2025-handbook-international-code-ethics-professional-accountants>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control —Integrated Framework***. 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>
- **S204 — International Auditing and Assurance Standards Board, *ISA 315 (Revised 2019)***. 2019; accessed 2026-08-31. Understanding systems and identifying risks of material misstatement. Source: <https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material-misstatement>
- **S205 — International Auditing and Assurance Standards Board, *ISA 240 (Revised)***. 2025-07-08. Fraud lens, risk response and transparency in audits. Source: <https://www.iaasb.org/publications/isa-240-revised-auditor-s-responsibilities-relating-fraud-audit-financial-statements>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

Jurisdiction note. Global educational foundation; local law, tax, reporting, consumer-protection, licensing, and professional requirements must be checked separately.

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