|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
| Analysis 13-1 | | | | | | |
|  | | | | | | |
| As auditor for the Harder Company, you decide to use PPS sampling in determining the fairness of accounts receivable. In executing the plan, you discover the following misstatements: | | | | | | |
|  | | | | | | |
|  | | Book |  | Audit |
|  | | **Value** |  | **Value** |
|  | | $1,500 |  | $1,000 |
|  | | 2,400 |  | 1,200 |
|  | | 8,200 |  | 7,500 |
|  | | 6,000 |  | 5,400 |
|  | | 9,000 |  | 8,000 |
|  | | | | | | |
| The book value of the accounts receivable is $720,000, the RF factor at a 5% risk of incorrect acceptance is 3.0, and sample size is 90. The incremental change in reliability factors for the first four misstatements are 1.75, 1.55, 1.46, and 1.40. | | | | | | |
|  | | | | | | |
| **REQUIRED:** | | | | | | |
|  | | | | | | |
| 1. | Calculate basic precision and the total projected misstatement. | | | | |
|  |  | | | | |
| 2. | Determine the incremental allowance for sampling risk and the upper misstatement limit. | | | | |
|  |  | | | | |
| 3. | State the quantitative conclusion that can be drawn from the sample assuming tolerable misstatement is $30,000. | | | | |
|  |  | | | | |
|  | | | | | | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Analysis 13-2 | | | | | | | | | |
|  | | | | | | | | | |
| Assume the following data for Morris Company whose auditor employs nonstatistical sampling to substantive testing: | | | | | | | | | |
|  | | | | | | | | | |
|  | | DOLLAR VALUE | | BOOK VALUE OF | |  |  |
| STRATUM | | **OF RECEIVABLES** | | **POPULATION** | | N | **n** |
| 1 | | Greater than $60,000 | | $ 700,000 | | 10 | 10 |
| 2 | | $6,000 — $60,000 | | 1,200,000 | | 60 | 8 |
| 3 | | Less than $6,000 | | 1,100,000 | | 330 | 12 |
| Total | |  | | $ 3,000,000 | | 400 | 30 |
|  | | | | | | | | | |
|  | | BOOK VALUE | AUDITED VALUE | |
| STRATUM | | **OF SAMPLE** | **OF SAMPLE** | |
| 1 | | $ 700,000 | $ 697,000 | |
| 2 | | 360,000 | 357,000 | |
| 3 | | 72,000 | 69,000 | |
| Total | | $ 1,132,000 | $ 1,123,000 | |
|  | |  |  | |
| **REQUIRED:** | | | | | | | | | |
|  | | | | | | | | | |
| 1. | Calculate the estimated audit value for each of the strata using the **ratio method**. | | | | | | | |
|  |  | | | | | | | |
| 2. | Calculate the estimated audit value for each of the strata using the **difference method**. | | | | | | | |
|  | | | | | | | | | |