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| Analysis 13-1  |
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| 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 |
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| Assume the following data for Morris Company whose auditor employs nonstatistical sampling to substantive testing: |
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|  | 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**. |
|  |