

# **APOLLO SHOES, INC.**

## **An Audit Case to Accompany *AUDITING AND ASSURANCE SERVICES***

Prepared by

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*James Madison University*

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*Louisiana State University*



## **Acknowledgements**

We would like to gratefully acknowledge the following individuals for their assistance in preparing and completing this case. Sincere appreciation is due to Reagan McDougall, Meghan Peters, Denise Patterson, Bob Ramsay, and several classes of Louisiana State University students. Their suggestions greatly enhanced several portions of the case. However, we remain responsible for all errors of commission and omission.



## Introduction

Apollo Shoes, Inc. is an audit case designed to introduce you to the entire audit process, from planning the engagement to drafting the final report. You are asked to assume the role of a veteran of two-to-three “busy” seasons, “in-charging” for the first time.

While Apollo Shoes’ growth has been phenomenal (there has been a dramatic growth in unaudited net income over the past year), there are some concerns: the client doesn’t want your firm (Anderson, Olds, and Watershed (AOW)) to talk with the predecessor auditor, a labor strike is looming, and one of Apollo Shoes’ largest customers is suffering some financial difficulties.

Because of busy season, there is little help, other than from an untrained intern. While the intern can do “grunt work,” such as vouching and gathering information for you, he appears incapable of preparing workpapers, making adjusting entries, or even getting good coffee and doughnuts. Assistance does come in the form of an objective, competent internal audit staff. Communication between client personnel and other firm members takes the form of e-mail messages from the engagement partner (Arnold Anderson), the engagement manager (Darlene Wardlaw), the intern (Bradley Crumpler), and the director of Apollo’s internal audit department (Karina Ramirez). **Required assignments and memos are in bold print.** Page indexing suggestions are given, but feel free to adjust page numbering as you see fit.

The AOW intranet website (<http://www.mhhe.com/louwers2e/>) has many useful resources such as a repository of electronic documents (so that you won’t need to input data or retype documents) and an archive of e-mail messages and their attachments, all filed by account group.

While we tried to make the case as realistic as possible, limitations remain. Since you are unable to follow up directly with client personnel, you may need to rely on some evidence with which you may be uncomfortable. In an actual audit, you would be able to inquire, observe, and otherwise follow-up on any questions that you have until you feel comfortable relying on the evidence. To make sure that the case can be completed in a reasonable amount of time, we cut some corners with respect to audit sampling. Understand that audit sampling plays a large role in actual audit practice.

The information is sequential in nature. In other words, pay close attention to information disclosed early in the audit (for example, in the Board of Director’s minutes) as it may play a role in subsequent audit work. Similarly, the bank cutoff statement in the cash workpapers and invoices used for valuing inventory may be useful later in the search for unrecorded liabilities. Similarly, the bank confirmation contains information about long-term liabilities.

Lastly, while it is difficult for us to believe that not everyone enjoys auditing as much as we do, we have tried to make the case both interesting and enjoyable (in a perverse sort of way). You can think of the project as a puzzle, in which you have to fill in all the pieces. Alternatively, you could look at the project as a murder mystery that needs a solution. In either case, have fun!

Tim Louwers  
Harrisonburg, VA

J. Kenneth Reynolds  
Baton Rouge, LA

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# Planning

Date: Thu, 25 OCT 2007 00:42:35 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Upcoming Apollo Shoes Engagement  
Attachment: <<AudComMins—101807.doc>>

Well, first let me congratulate you on your recent promotion. Although we have not worked on an engagement together before, I have heard many good things about you. I look forward to working with you on the new Apollo Shoes engagement.

I understand that this is your first engagement to in-charge. Arnold Anderson (aka "Uncle Arnie") will be the engagement partner; he is pretty sharp so you'll have to stay on your toes. As engagement manager, I'll try to help out as much as I can. Understand, however, that I am managing four other busy season engagements, so my interaction time with you will be limited. For now, I want you familiarize yourself with Apollo Shoes and help me out by doing the following:

1. *SEC Filing:* I have asked Larry Lancaster, President and chairman of the Apollo Shoes board of directors, to send you a copy of last year's (2006) 10-K filing with the SEC. Review the information when you receive it, as it is one of the most important sources of information about a company.
2. *Audit Committee Meeting:* I have attached the minutes of an audit committee meeting that occurred last week. Please **review the minutes of the meeting and draft an appropriate engagement letter** (label it **GA-1**, for General and Administrative, page 1) addressed to Mr. Lancaster. (Since this is our first year on the engagement, you might want to check one of your old auditing textbooks for an example.) I'll review the letter before getting Arnold to sign it.
3. *Audit Team:* Based upon the information that you glean from 1 and 2 above, do you see any need for special business knowledge in regard to the basic type of business and products Apollo manages? Do you see any need for special audit or accounting expertise for any of the work that we have agreed to perform? In other words, since you'll be in the trenches, what kind of expertise do you want on your audit team? Just **write a brief audit staffing memo (GA-2)** telling me what expertise you need to complete the audit and I'll see if I can get them assigned to the audit team.
4. *Scheduling:* We are going to have to work around your other engagements, but we have you tentatively scheduled for one week in October (next week) for bringing you up to speed on Apollo and its industry, and five straight weeks beginning the last week in December for engagement planning, internal control evaluation, and substantive testing.

Finally, since most of our interaction will be by e-mail, please forgive me if I give you too much detail. Since we haven't worked together before, I'd rather give you too much than too little until we get used to working together.

DW



**Minutes of the Audit Committee, Apollo Shoes**  
**October 18, 2007**

Present at Meeting: Arnold Anderson, CPA (partner in charge of the audit); Darlene Wardlaw, CPA (engagement manager); Eric Unum (Apollo 's vice president of finance); Mary Costain (Apollo 's treasurer); Samuel Carboy (Apollo 's controller); and Karina Ramirez (Apollo 's director of internal audit). The three members of the audit committee of the board and the corporate secretary also were present, but they did not enter into the conversation.

**Mr. Unum (VP finance):** Well, I want to welcome the auditing firm of Anderson, Olds, and Watershed, CPAs to what we call the "Apollo Shoes Experience." After our old auditors, Smith & Smith, CPAs, unexpectedly withdrew from the engagement, we were very happy to have a firm of your quality to come aboard.

**Mr. Anderson (partner on the audit):** Well, we are always looking for high quality clients. By the way, why did your previous auditors resign?

**Mr. Unum (VP finance):** I'd rather not talk about it. Arnold, will Darlene be in charge?

**Mr. Anderson (partner on the audit):** Yes, and she will be assisted by several of our best staff, including a tax specialist and an information systems auditor. We need to keep up to date on your computer systems. Back to your previous auditors, with your permission, we would like to contact them.

**Mr. Unum (VP finance):** Well, we'd rather you didn't. There may be some litigation since they withdrew from the engagement with so little notice. Is it necessary for you to speak with them to accept the engagement?

**Mr. Anderson (partner on the audit):** No, not really, but it does raise some concerns for our firm.

**Ms. Costain (treasurer):** In the past, we have never had any unpleasant discoveries of embezzlement or theft, but we always want to be vigilant. Will you plan enough in-depth auditing to give us assurances about errors and frauds in the accounts?

**Ms. Wardlaw (manager on the audit):** We will follow audit standards and base our audit work on samples of transactions. We plan the work to look for major errors and frauds in the accounts, but cleverly hidden schemes might not be discovered. According to the Sarbanes-Oxley Act of 2002, we will need to test the effectiveness of Apollo's internal controls, as well as provide you the usual separate management letter on related findings.

**Ms. Ramirez (internal auditor):** Darlene, I agree, it's hard to uncover clever schemes. While I am new to Apollo, none of the projects that I have undertaken this year shows anything amiss, other than normal human error types or mistakes.

**Ms. Costain (treasurer):** This year, we want to add some work to the audit. I am short on staff time and need to have you prepare the state franchise tax return as well as the federal tax returns.

**Ms. Wardlaw (manager on the audit):** Our tax staffperson can do the state and federal returns, and I will have them reviewed by Maria Olds, our tax partner. In order to perform the tax work, Sarbanes-Oxley requires that we get prior approval from the audit committee to perform both the tax work as well as the audit.

**Mr. Anderson (partner on the audit):** I assume you also want us to review the 10-K filing material?

**Mr. Unum (VP finance):** Yes. Will you need any staff help from us?

**Ms. Ramirez (internal auditor):** Last year, Apollo was able to save on audit fees when my staff prepared a stack of schedules and analyses that our previous auditors needed.

**Mr. Wardlaw (manager on the audit):** Yes, Karina, I will give you a list of schedules for various accounts. I will appreciate your having them ready when we start fieldwork in mid January.

**Mr. Carboy (controller):** Speaking of being ready, we will be able to give you a trial balance the day after December 31.

**Mr. Unum (VP finance):** How much is this going to cost us?

**Mr. Anderson (partner on the audit):** It is difficult to give you a fixed fee deal, but my estimate, considering the additional work, is \$750,000. Darlene will let you know immediately if problems arise to cause the work to be more extensive.

**Mr. Unum (VP finance):** Thank you. This has been a productive meeting of the minds. We look forward to your getting started next month.

Meeting ended 5:30 P.M.

/s/ Jeff Chesnut, Secretary

C:/AudComMins—101807.doc/

Date: Fri, 26 OCT 2007 4:43:17 +0000  
From: "Larry Lancaster" <LLancaster@ApolloShoes.com>  
Subject: Attached 10-K Filing  
Attachments: <<Shareholder Letter.doc>>, <<10K.doc>>,  
<<ApolloShoesOrgChart.xls>>

I am sorry that you were unable to attend the audit meeting last week, but Darlene Wardlaw said that you were busy with another client. She asked that I forward a copy of our 10-K directly to you. I've attached one that we sent out to all shareholders with the Letter to Shareholders attached.

I've attached a copy of Apollo's organizational table. Please let me know what my staff or I can do to help the audit go smoothly for you. I will have Karina Ramirez, our Director of Internal Audit, contact you to provide you with any other information that you need.

Larry

P.S. Do you play golf?

**This Apollo message (including any attachments) contains confidential information intended for a specific individual and purpose, and is protected by law. If you are not the intended recipient, you should delete this message and are hereby notified that any disclosure, copying, or distribution of this message, or the taking of any action based on it, is strictly prohibited.**

## Letter to Fellow Shareholders

Dear Fellow Shareholders,

You may have noticed our competitor's focus on earth-bound activities and athletes. Our focus is in exactly the opposite direction. In actuality, the technological superiority of our products is at the point where our sales are limited only by the technological inferiority of other scientific fields (specifically, current transportation means). As space exploration continues, we intend to be among the first to market our products in new worlds. It is there that our technological advances in light and sound can combine with our rugged footwear to propel all galactic sports participants to their fullest potential.

Back here on earth, the past year has been one of the most dynamic and exciting years since I began my tenure at Apollo Shoes. From the beginning, Apollo Shoes, Inc. has adapted itself to meet the needs of all its galactic customers and to take advantage of all opportunities supplied by exploration of new frontiers. After a record year when most companies may have wanted to relax and play it safe, we have decided to use this excitement to reach out further in our continuing mission: to make a difference in this galaxy.

Our product lines, led by the flagship products **SPOTLIGHT** (for athletes who like to compete at night) and **SIREN** (designed specifically for police officers working the graveyard shifts in our nation's most dangerous cities) have met widespread acceptance. We have signed with some of this world's premier athletes as spokespersons for our products, including a recent winner of the grueling Alaska Iditarod who used his **SPOTLIGHTS** to guide his dogs to a late night finish line. We are currently negotiating with a soccer league to exclusively use our **SIRENS**; the shoe's flashing lights are designed to go off after every team goal!

Our strategic management plans have allowed us to maintain a positive trend in income over the past several years, and this was no easy task, given the state of the galactic economy. Our net income for the year has been the best since we began operations four years ago. Next year appears even better!

The strength of our results for the past year should not be confused with the truth of the times. This was a uniformly difficult year for all businesses. Due to the conflicts in foreign countries, and uncertainty with the Federal Reserve's adjustments of interest rates, consumer confidence has been negatively affected; therefore, fewer earth consumers are buying our state-of-the-art athletic equipment. All of our operating divisions were severely tested. I am proud of their responses. Although sales were not as strong as we had anticipated, our marketing plans will allow us to bounce back next year. With the advent of significant new breakthrough technology by Apollo Shoes, Inc.'s research and development team, Apollo Shoes, Inc. now has the possibility to take a leadership role in the galactic athletic footwear market. Apollo Shoes, Inc. has always been known for its leadership position in electronic shoe technology, but we are now committed to expanding our marketing focus. With new applied technologies, Apollo Shoes, Inc. can maintain its tradition of high tech electronic performance and style. We continue to work on and improve the **SPEAKERSHOE**, an athletic shoe with an amplified loudspeaker, originally designed for the international recording group "Mythic Meathook." We are hard at work on new ideas, such as the **PHONESHOE**, the sneaker with a cellular phone for those executives who like to simultaneously combine exercise with work. We anticipate that the **PHONESHOE** will capture a significant piece of this quickly expanding market.

At Apollo Shoes, Inc., we like to briefly acknowledge achievement and then proceed to new challenges. This year was great only because it provided us with resources to expand operations and further technological progress. As we continue into this century of "more, faster, better," it is critical to continue this tradition because production, speed, and quality are critical elements for future success. We look forward to the challenge.

*Larry Lancaster*

Chairman, President and CEO

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

COMMISSION FILE NUMBER 1-9Z40

APOLLO SHOES INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MAINE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

X8-061325  
(IRS EMPLOYER  
IDENTIFICATION NO.)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS

NAME OF EACH EXCHANGE  
ON WHICH REGISTERED

-----  
COMMON STOCK, PAR VALUE, \$1.00 PER SHARE

-----  
STUDS

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 8, 2007, the aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was approximately \$24,315,000.

As of March 8, 2007, 8,105,000 shares of the registrant's Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement dated December 12, 2006 for the Annual Meeting of Shareholders to be held on Tuesday, February 27, 2007 at the End of the Universe Restaurant in downtown Shoetown.

APOLLO SHOES INC.  
ANNUAL REPORT ON FORM 10-K  
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This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements with regard to the Company's revenues, earnings, spending, margins, cash flow, orders, inventory, products, actions, plans, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "will be," "will continue," "will result," "could," "may," "might," or any variations of such words or other words with similar meanings. Any such statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from those discussed in such forward-looking statements. Prospective information is based on management's then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, become inaccurate. For a description of such risks, see the section below entitled "ISSUES AND UNCERTAINTIES."

## ITEM 1. BUSINESS.

Apollo Shoes, Inc. is a planetary distributor specializing in technologically superior athletic podiatric products. The Company's brands-- **SIREN**, **SPOTLIGHT**, and **SPEAKERSHOE**-- are used extensively in many athletic competitions, such as the Switzerland Watersports Games in Zurich. The Company is excited about this annual event that exhibits to the entire world the skills and spirit of outstanding Swiss aquatic athletes.

The Company's products are shipped to large and small retail outlets in a six-state area. The company stocks a wide range of shoe products and has a large base of retail store customers. Apollo operates from a large office, operations, and warehouse facility in the Shoetown, Maine area.

Apollo Shoes, incorporated in the state of Delaware, is a public corporation. Its stock is traded in the over-the-counter market. No one presently owns more than 4 percent of the outstanding common stock. The company is subject to the reporting requirements of the Securities and Exchange Act of 1934.

### Organization and Personnel

Apollo Shoes is a medium-sized corporation. It has over 100 employees organized in five departments headed by vice presidents.

### Marketing

The marketing department handles advertising and direct contact with customers. The marketing department vice president supervises the sales staff, the advertising staff, and the customer relations staff.

## Finance

The finance department has two subordinate offices—the treasurer and the controller. The treasurer supervises the cashiers and the cash management professionals. The controller’s office has the following departments and personnel: billing department, accounts receivable/cash receipts department, accounts payable/cash disbursements department, inventory records department, payroll department, general ledger department, and financial statement department.

## Information Systems

An information systems department was created this past year. At present, the staff consists of a Director of IS (information systems), a systems development project manager and two programmer/analysts, an operations manager (who also serves as the librarian and control clerk), and two machine operators.

When the information systems department became active, the director was promoted to vice president. Apollo obtained a wireless local area network (LAN) multiserver soon after and began testing the hardware and software. Since the new computer system was designed and customized to Apollo’s needs, every effort was made to keep as many as possible of the procedures and business documents used in the manual system. This made the transition to the computer system easy on the employees, thus reducing training and employee objections to the computer.

## Operations

The operations department contains production planning specialists and some production control professionals, who assist the marketing department in technical matters and assist customers with product specifications. Operations supervisors supervise hourly workers who move products from receiving, inventory, and shipping to serve customer demand. The department also supervises the timekeepers, who maintain the workers’ time clocks and collect payroll time cards. The operations department contains the critical functions of purchasing, receiving, and shipping. Inventory storekeeping responsibility is also in this department, with some inventory managers. For reasons lost to history, the department also has the mailroom and the personnel department.

## ITEM 2. PROPERTIES.

Until February of 2004, the Company leased most of the properties that were used in its business. Its corporate headquarters relocated at that time to office facilities in Shoetown, Maine. At its corporate headquarters, the Company occupies approximately 10,000 square feet of space. A lease on an operations facility expires on June 30, 2007. This warehouse and distribution center is located approximately one mile from the Company headquarters and contains approximately 450,000 total square feet of usable space.



### ITEM 3. LEGAL PROCEEDINGS.

On September 15, 2006, the Company agreed to settlement of a suit brought against the Company by a competitor for patent infringement for the Company's use of the Siren. While the Company denies any wrongdoing, the Company felt that the settlement would be preferable to a long litigation process. The final settlement totaled \$11,695,000 (\$19,172,000, net of a tax benefit of \$7,477,000).

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted during 2006 to a vote of security holders, through the solicitation of proxies or otherwise.

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is quoted on the Security Traders, Underwriters, and Dealers System (STUDS) under the symbol APLS. The following table, derived from data supplied by STUDS, sets forth the quarterly high and low sale prices during 2006 and 2005.

	2006		2005	
	High	Low	High	Low
First	14 5/8	3 3/8	4	3 1/2
Second	11	2 5/8	4 5/8	4 1/4
Third	8 1/4	3 1/4	8 1/8	4
Fourth	5 5/8	3 1/8	11 1/2	5

The stock price at closing on December 31, 2006, was \$3 1/4 per share.

As of December 31, 2006, there were approximately 15,342 holders of record of the Company's Common Stock including those shares held in "street name". The Company believes that it has in excess of 16,000 shareholders.

The Company has never paid cash dividends on its Common Stock and the Board of Directors intends to retain all of its earnings to finance the development and expansion of its business. However, there can be no assurance that the Company can successfully expand its operations, or that such expansion will prove profitable. Future dividend policy will depend upon the Company's earnings, capital requirements, financial condition, and other factors considered relevant by the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA.

APOLLO SHOES, INC.

*in thousands* (except per share data)

**Income Statement Data**

	Year Ended December 31			
	2006	2005	2004	2003
Net Sales	\$240,575	\$236,299	\$182,209	\$138,920
Income Before Taxes	\$26,337	\$54,680	\$2,226	\$1,757
Income Taxes	\$10,271	\$21,634	\$636	\$502
Net Income	\$4,371	\$1,745	\$1,590	\$1,255
Earnings Per Share	\$0.54	\$0.22	\$0.55	\$0.44

**Balance Sheet Data**

	As of December 31,			
	2006	2005	2004	2003
Working Capital	\$20,482	\$16,866	(\$1,951)	(\$2,356)
Total Assets	\$36,794	\$21,304	\$6,754	\$6,062
Long-Term Debt	\$0	\$0	\$0	\$0
Shareholders' Equity	\$22,119	\$17,748	\$5,470	\$3,880

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### **2006 Financial Results**

Net sales for the year ended December 31, 2006 increased 2% to \$240,575,000, when compared to the same period in 2005. The sales growth was primarily due to new products introduced during the 2006 fiscal year. The average selling price per product in the year ended December 31, 2006 increased approximately 2% from the year ended December 31, 2005.

Gross profit for the year ended December 31, 2006 was 41% of sales compared with 49% for the year ended December 31, 2005. The decrease was primarily due to higher prices charged by our suppliers for raw materials.

Selling, general and administrative expense for the year ended December 31, 2006 was 30% of net sales as compared to 26% for the year ended December 31, 2005. The increase of 16% to \$71,998,000 was primarily the result of increases in staffing and increased professional expenses. The increased professional fees were primarily related to the settlement of litigation brought against us by a competitor. Rather than face a costly, lengthy litigation process, the Company decided to settle out of court. The Company vehemently denies any wrongdoing in the matter.

Total research and development expenses for the year ended December 31, 2006 were 5% of net sales and increased by 10% when compared to the year ended December 31, 2005. The increase was primarily due to the addition of engineering personnel. Research and development activities were focused on continued development of *PHONESHOE* and *SPEAKERSHOE* technology.

### **Liquidity and Capital Resources**

The Company's principal source of operating funds has been from proceeds from short-term borrowing against a \$50 million line of credit. While the credit facility must be renewed each year, the Company foresees no problems with renewal for the foreseeable future.

The Company intends to use its capital resources to expand its operations facilities and to increase research and development in order to maintain its competitive advantage in podiatric technology. There are no other significant capital requirements identified at this time.

Management believes that the effect of inflation on the business of the Company for the past three years has been minimal.

The Company believes that its current working capital of \$20,482 million and anticipated working capital to be generated by future operations will be sufficient to support the Company's working capital requirements for the foreseeable future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**STATEMENTS OF INCOME**

APOLLO SHOES, INC.

*in thousands* (except per share data)

For year ended, December 31,	2006	2005
Net Sales (Note 2)	\$240,575	\$236,299
Cost of Sales	<u>\$141,569</u>	<u>\$120,880</u>
Gross Profit	\$99,006	\$115,419
Selling, General and Administrative Expenses	\$71,998	\$61,949
Interest Expense (Note 7)	\$875	0
Other Expense (Income)	<u>(\$204)</u>	<u>(\$1,210)</u>
Earnings from Continuing Operations Before Taxes	\$26,337	\$54,680
Income Tax Expense (Note 10)	<u>\$10,271</u>	<u>\$21,634</u>
Earnings from Continuing Operations	\$16,066	\$33,046
Discontinued Operations, Net of tax benefit		(\$31,301)
Extraordinary Item, Net of tax benefit (Note 11)	<u>(\$11,695)</u>	
Net Income	<u>\$4,371</u>	<u>\$1,745</u>
Earnings Per Common Share		
From Continuing Operations	\$1.98	\$4.08
Other	<u>(\$1.44)</u>	<u>(\$3.86)</u>
Net Income	<u>\$0.54</u>	<u>\$0.22</u>
Weighted shares of common stock outstanding	<u>8,105</u>	<u>8,105</u>

The accompanying notes are an integral part of the consolidated financial statements.

**STATEMENT OF FINANCIAL CONDITION**

APOLLO SHOES, INC.

*in thousands*

As of December 31	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash	\$3,245	\$3,509
Accounts Receivable (Net of Allowances of \$1,263 and 210, respectively) (Note 3)	15,148	2,738
Inventory (Note 4)	15,813	13,823
Prepaid Expenses	<u>951</u>	<u>352</u>
Current Assets	<u>\$35,157</u>	<u>\$20,422</u>
Property, Plant, and Equipment (Note 5)	1,174	300
Less Accumulated Depreciation	<u>(164)</u>	<u>(31)</u>
	<u>\$1,010</u>	<u>\$269</u>
Investments (Note 6)	613	613
Other Assets	<u>14</u>	<u>0</u>
Total Assets	<u>\$36,794</u>	<u>\$21,304</u>
<b>Liabilities and Shareholder's Equity</b>		
Accounts Payable and Accrued Expenses	\$4,675	\$3,556
Short-Term Liabilities (Note 7)	<u>10,000</u>	<u>0</u>
Current Liabilities	\$14,675	3,556
Long-Term Debt (Note 7)	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$14,675</u>	<u>3,556</u>
Common Stock	8,105	8,105
Additional Paid-in Capital	7,743	7,743
Retained Earnings	<u>6,271</u>	<u>1,900</u>
Total Shareholders' Equity	<u>\$22,119</u>	<u>\$17,748</u>
Total Liabilities and Shareholders' Equity	<u>\$36,794</u>	<u>\$21,304</u>

The accompanying notes are an integral part of the consolidated financial statements.

## STATEMENTS OF SHAREHOLDERS' EQUITY

APOLLO SHOES, INC.

*in thousands*

	Shares	Par Value (\$1 per share)	Additional Paid- in Capital	Retained Earnings	Other	Total
Balance, December 31, 2004	2,873	\$2,873	\$2,442	\$155	\$0	\$5,470
Net Income				\$1,745		\$1,745
Exercise of Stock Options	232	\$232	\$301			\$533
Other	5,000	\$5,000	\$5,000			\$10,000
Balance, December 31, 2005	8,105	\$8,105	\$7,743	\$1,900	\$0	\$17,748
Net Income				\$4,371		\$4,371
Exercise of Stock Options	0	\$0				\$0
Other						\$0
Balance, December 31, 2006	8,105	\$8,105	\$7,743	\$6,271	\$0	\$22,119

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

APOLLO SHOES, INC.

*in thousands*

For the year ended December 31,	2006	2005
Cash Flows from Operating Activities		
Net Income	<u>\$4,371</u>	<u>\$1,745</u>
Adjustments to Reconcile Net Income to Net Cash Provided		
Depreciation and Amortization	\$133	\$26
Changes in Operating Assets and Liabilities		
Decrease (Increase) in Current Assets		
Accounts Receivable	(\$12,410)	(\$2,073)
Inventory	(\$1,990)	(\$11,861)
Prepaid Expenses	(\$599)	(\$123)
Increase (Decrease) in Current Liabilities		
Accounts Payable and Accrued Expenses	<u>\$1,119</u>	<u>\$5,504</u>
Total Adjustments	<u>(\$13,747)</u>	<u>(\$8,527)</u>
Net Cash Provided by Operating Activities	<u>(\$9,376)</u>	<u>(\$6,782)</u>
Cash Flows from Investing Activities		
Capital Expenditures	(\$874)	(\$255)
Purchase of Other Assets	<u>(\$14)</u>	
Net Cash Provided by Investing Activities	<u>(\$888)</u>	<u>(\$255)</u>
Cash Flows from Financing Activities		
Proceeds from the Issuance of Debt	\$10,000	
Proceeds from the Issuance of Common Stock		<u>\$10,533</u>
Net Cash Provided by Financing Activities	<u>\$10,000</u>	<u>\$10,533</u>
Net Increase (Decrease) in Cash	(\$264)	\$3,496
Cash at Beginning of Year	<u>\$3,509</u>	<u>\$13</u>
Cash at End of Year	<u>\$3,245</u>	<u>\$3,509</u>

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### APOLLO SHOES, INC.

#### 1. Summary of Significant Accounting Policies

**Business activity** The Company develops and markets technologically superior podiatric athletic products under various trademarks, including *SIREN*, *SPOTLIGHT*, and *SPEAKERSHOE*.

**Marketable Securities** Investments are valued using the market value method for investments of less than 20%, and by the equity method for investments greater than 20% but less than 50%.

**Cash equivalents** Cash equivalents are defined as highly liquid investments with original maturities of three months or less at date of purchase.

**Inventory valuation** Inventories are stated at the lower of First-in, First-out (FIFO) or market.

**Property and equipment and depreciation** Property and equipment are stated at cost. The Company uses the straight-line method of depreciation for all additions to property, plant and equipment.

**Intangibles** Intangibles are amortized on the straight-line method over periods benefited.

**Net Sales** Sales for 2006 and 2005 are presented net of sales returns and allowances of \$4.5 million, and \$0.9 million, respectively, and net of warranty expenses of \$1.1 million, and \$0.9 million, respectively.

**Income taxes** Deferred income taxes are provided for the tax effects of timing differences in reporting the results of operations for financial statements and income tax purposes, and relate principally to valuation reserves for accounts receivable and inventory, accelerated depreciation and unearned compensation.

**Net income per common share** Net income per common share is computed based on the weighted average number of common and common equivalent shares outstanding for the period.

**Reclassification** Certain amounts have been reclassified to conform to the 2006 presentation.

#### 2. Significant Customers

Approximately 15%, and 11% of sales are to one customer for years ended December 31, 2006 and 2005, respectively.



### 3. Accounts Receivable

Accounts Receivable consists of the following at December 31:

<i>in thousands</i>	<b>2006</b>
Trade Receivables	\$16,411
Employee and Officer Receivables	0
	<u>16,411</u>
Less Allowance for Doubtful Accounts	(1,263)
Net Accounts Receivable	<u>\$ 15,148</u>

Amount charged to bad debt expense for the year ended December 31, 2006 was 1,622,000. Writeoffs for the year were approximately the same.

### 4. Inventories

Inventories consist of the following at December 31:

<i>in thousands</i>	<b>2006</b>
Siren	\$3,098
Speaker	9,571
Spotlight	6,156
	<u>18,825</u>
Less Reserve for Inventory Obsolescence	(3,012)
Ending Inventory	<u>\$15,813</u>

### 5. Property and equipment

Property is stated at cost net of accumulated depreciation. Property and Equipment at December 31 was as follows:

<i>in thousands</i>	<b>2006</b>
Land	\$117
Buildings and Land Improvements	624
Machinery, Equipment and Office Furniture	433
Total Land, plant and equipment	<u>1,174</u>
Less Accumulated depreciation	(164)
Net Land, Plant and Equipment	<u>\$1,010</u>

## 6. Investments

In order to receive a higher rate of return on its excess liquid assets, the Company invested approximately \$0.6 million in stock for a 25% share in the SHOCK-PROOF SOCKS Company in 2004. This investment is valued in the financial statements using the Equity method. SHOCK-PROOF SOCKS did not recognize any income and did not pay any dividends in 2005 and 2006. In addition, the Company incurred approximately \$14,000 in legal fees to register the patent for the *PHONESHOE*. The asset will be amortized over its useful life of 17 years.

## 7. Debt

At December 31, 2006, the Company had \$10,000,000 outstanding in short-term borrowings under a \$50 million secured revolving credit line with a local financial institution. The line of credit is secured by the Company's inventory. The interest rate charged on this agreement is the Prime Rate plus 3%. This credit line is evaluated annually on June 30 by the lending institution.

Annual maturities of debt obligations are as follows:

2007	\$10,000,000
2008	<u>0</u>
Total Debt	<u>\$10,000,000</u>

## 8. Commitments

Annual obligations under non-cancelable operating leases are as follows:

2007	\$1,200,000
Thereafter	0

Rent expense charged to operations for the years ended December 31, 2006 and 2005 was \$2.6 million and \$3.7 million, respectively.

## 10. Income taxes

The provision (benefit) for income taxes consists of the following for the years ended December 31:

	2006	2005
Current:		
Federal	\$ 2,025	\$ 873
State	<u>365</u>	<u>154</u>
	<u>\$ 2,390</u>	<u>\$ 1,027</u>
Deferred:		
Federal	\$ 340	\$ (42)
State	<u>64</u>	<u>(7)</u>
	<u>\$ 404</u>	<u>\$ (49)</u>
	<u>\$ 2,794</u>	<u>\$ 978</u>

Deferred income taxes are provided for the tax effects of timing differences in reporting the results of operations for financial statements and income tax purposes, and relate principally to valuation reserves for accounts receivable and inventory, accelerated depreciation and unearned compensation. A reconciliation of the statutory federal income tax provision to the actual provision follows for the years ended December 31:

	2006	2005
Federal Statutory Rate	34.0%	34.0%
State taxes, less federal benefit	6.0%	6.0%
Research and experimentation credit	(2.0%)	(1.4%)
Other	<u>1.0%</u>	<u>1.0%</u>
Effective Tax Rate	<u>39.0%</u>	<u>39.6%</u>

## 11. Litigation

On September 15, 2006, the Company agreed to settlement of a suit brought against the Company by a competitor for patent infringement for the Company's use of the *Siren*. While the Company denies any wrongdoing, the Company felt that the settlement would be preferable to a long litigation process. The final settlement totaled \$11,695,000 (\$19,172,000, net of a tax benefit of \$7,477,000).

## 12. Related-party transactions

On February 1, 2006, the Company purchased its operating facility and equipment from a company controlled by two previous directors and shareholders of the Company for \$623,905.92. Currently, the Company leases a second facility and equipment from the same company for approximately \$200,000 per month. The Company's lease ends in June 2007 at which time all operations will be moved to the central headquarters building.

### **13. Employee benefit plans**

The Company sponsors a defined-contribution retirement plan covering substantially all of its earth employees. Contributions are determined at the discretion of the Board of Directors. Aggregate contributions made by the Company to the plans and charged to operations in 2006, 2005 and 2004 were \$3 million, \$3 million and \$3 million, respectively.

### **14. Concentrations of credit risk**

Financial instruments which potentially subject the Company to credit risk consist principally of trade receivables and interest-bearing investments. The Company sells a significant amount of its product to one retail distributor with sales operations located throughout North America, Europe and Asia Pacific. The Company is currently negotiating to increase its sales to that company, as well as enter into long-term relationships with two other large retail distributors. The Company performs on-going credit evaluations of all of its customers and generally does not require collateral. The Company maintains adequate reserves for potential losses and such losses, which have been minimal, have been included in management's estimates.

The Company places substantially all its interest-bearing investments with several major financial institutions. Corporate policy limits the amount of credit exposure to any one financial institution.

## CERTIFICATIONS

We, Larry Lancaster and Joe Bootwell, certify that:

1. We have reviewed this annual report on Form 10-K of Apollo Shoes, Inc.;
2. Based on our knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on our knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. We are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. We have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2007

*Larry Lancaster*

Larry Lancaster  
Chairman of the Board of Directors,  
President and CEO

*Joe Bootwell*

Joe Bootwell  
Executive Senior Vice-President and CFO

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of APOLLO SHOES, INC.

We have audited the accompanying balance sheets of APOLLO SHOES, INC. as of December 31, 2006 and 2005 and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the two years in the period ended December 31, 2006. We have also audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that APOLLO SHOES, INC. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria). APOLLO SHOES' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of APOLLO SHOES, INC. as of December 31, 2006 and 2005 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles. Also in our opinion, management's assessment that APOLLO SHOES, INC. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Furthermore, in our opinion, APOLLO SHOES, INC. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

*Smith & Smith, CPAs*

Shoetown, Maine

January 29, 2007

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*McGraw-Hill/Irwin*

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Apollo Shoes, Inc.

## CORPORATE INFORMATION

### **Auditors**

Smith & Smith, CPA's  
31st Financial Avenue  
Shoetown, ME 00002

### **Transfer Agent and Registrar**

The Twenty-First National Bank of Maine is the Transfer Agent and Registrar for the Company's common stock and maintains shareholder accounting records. The Transfer Agent should be contacted on questions of changes in address, name or ownership; lost certificates and consolidation of accounts.

The Twenty-First National Bank of Maine  
Shareholder Correspondence  
Post Office Box 1  
Shoetown, ME 00002

### **Form 10-K**

For a copy of the Form 10-K Annual Report, filed with the Securities and Exchange Commission write to:

Office of Investor Relations  
Apollo Shoes Inc.  
100 Shoe Plaza  
Shoetown, ME 00001

### **Annual Meeting**

The Annual Meeting of Shareholders was held at 10:00 a.m., local time, on Tuesday, February 28, 2006 at the End of the Universe Restaurant in downtown Shoetown. Shareholders of record on February 14, 2006 were entitled to vote at the meeting.

The PHONESHOE, SIREN, SPEAKERSHOE, and the SPOTLIGHT Designs are registered trademarks of Apollo Shoes, Inc.

## BOARD OF DIRECTORS

**Larry Lancaster**  
Chairman, President and CEO  
APOLLO SHOES, INC.

**Eric. P. Unum**  
Vice-President - Finance

**\*Fritz Brenner**  
President  
The Widget Corporation

**\*Ivan Gorr**  
President  
Far More Drugs, Inc.

**\*Harry Baker**  
Executive Vice President and Treasurer  
Iguana Growers of America Inc.

**\*Theodore Horstmann**  
Minister of Commerce  
Anglonesia

**\*Josephine Mandeville, PH.D., CPA**  
Professor of Accountancy and Typing  
Graduate School of Business and  
Clerical Skills

\* External Directors

## CORPORATE OFFICERS

**Larry Lancaster**  
Chairman, President and CEO

**Joe Bootwell**  
Executive Senior Vice President and  
CFO

**Fred Durkin**  
Vice-President - Marketing

**Daisy Gardner**  
Vice-President - Operations

**Eric. P. Unum**  
Vice-President - Finance

**Sue D. Fultz**  
Vice-President - Legal Affairs

**Mary Costain**  
Treasurer

**Jeff Chesnut**  
Secretary



## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

Smith and Smith, CPAs, withdrew as the Company's auditors after completing the 2006 audit. The auditors expressed concerns about "mutually incongruent goals." The Company is considering legal action against the firm.

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The president, Larry Lancaster, is both chairman of the board of directors and President and chief executive officer (CEO). Eric Unum (Vice-President – Finance) is also a member of the board, along with five outside (independent) directors who never worked for the Apollo organization. Three outside board members constitute the audit committee of the board.

## ITEM 11. EXECUTIVE COMPENSATION (Approximate amounts expressed *in thousands*)

Larry Lancaster, Chairman, President and CEO	2,500
Sue D. Fultz, Vice-President - Legal Affairs	1,500
Joe Bootwell, Executive Senior Vice President and CFO	1,200
Fred Durkin, Vice-President – Marketing	1,000
Eric. P. Unum, Vice-President – Finance	590
Daisy Gardner, Vice-President – Operations	410

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Currently, no management personnel hold stock ownership in the Company

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On February 1, 2006, the Company purchased its operating facility and equipment from a company controlled by two previous directors and shareholders of the Company for \$623,905.92. Currently, the Company leases a second facility and equipment from the same company for approximately \$200,000 per month. The Company's lease ends in June 2007 at which time all operations will be moved to the central headquarters building. The two previous directors are no longer associated with Apollo Shoes.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS  
ON FORM 8-K

**QUARTERLY RESULTS OF OPERATIONS** (Unaudited)

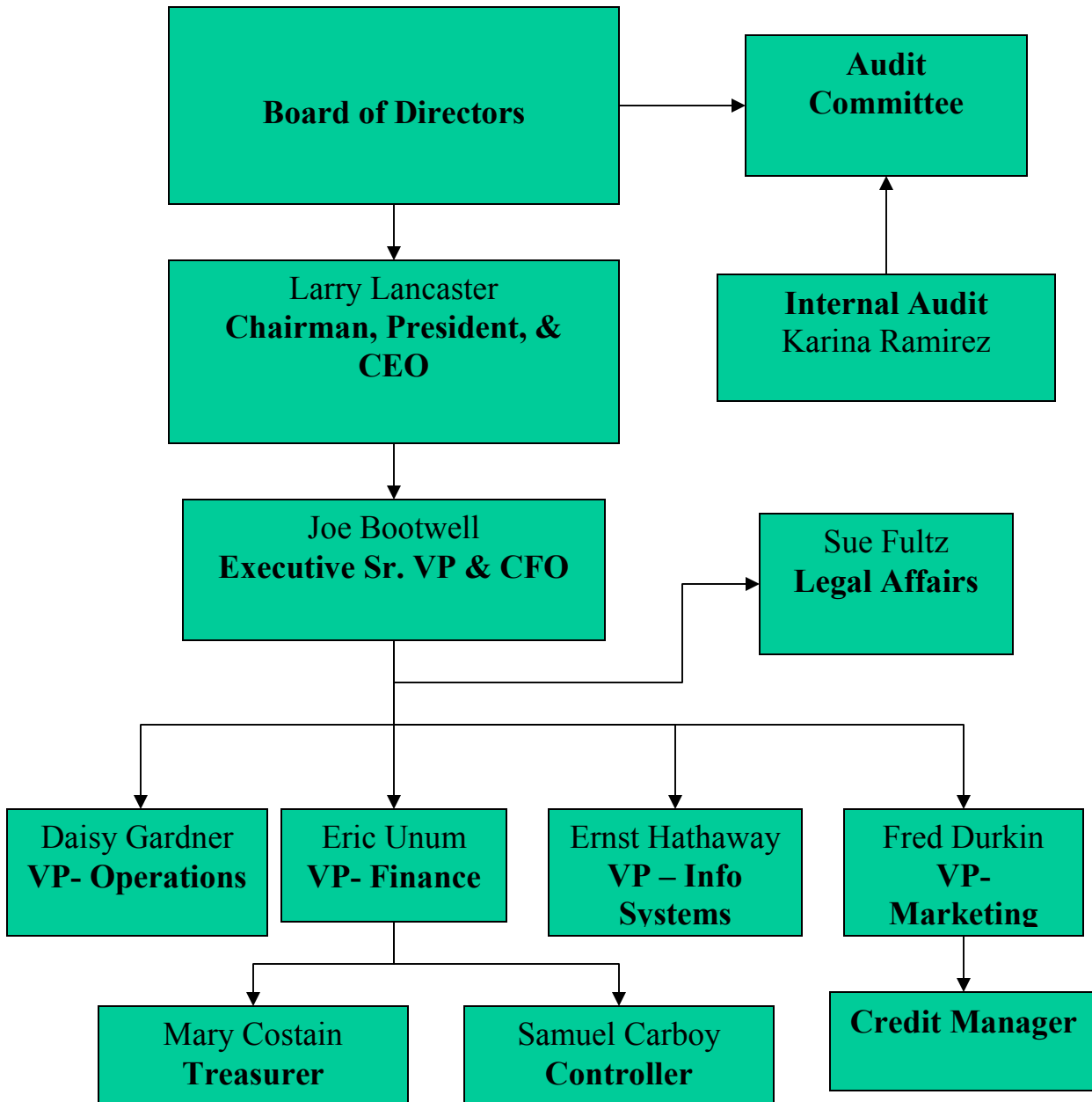
<b>2006</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>	<b>Total</b>
Net Sales	\$58,236	\$59,759	\$60,239	\$62,341	\$240,575
Gross Profit	\$24,372	\$24,996	\$24,356	\$25,282	\$99,006
S,G, & A Expenses	\$16,478	\$17,695	\$17,347	\$20,478	\$71,998
Net Income	\$4,815	\$4,454	(\$7,785)	\$2,887	\$4,371
Earnings Per Share	\$0.59	\$0.55	(\$0.96)	\$0.36	\$0.54

The Company filed one 8-K dealing with the withdrawal of its auditor on January 30, 2007. It is incorporated in this document by reference.

<<10-K.Doc>>

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Apollo Shoes Inc.  
Organizational Chart  
As of 9/30/2007



<<ApolloShoesOrgChart.xls>> Date: Mon, 29 OCT 2007 07:14:35 +0000  
From: "Karina Ramirez" <Kramirez@ApolloShoes.com>  
Subject: Upcoming Apollo Shoes Engagement  
Attachment: <<APManual.doc>>

Per your request, I have attached a copy of our accounting and procedures manual. We look forward to your upcoming fieldwork. Please let us know if there is anything else we can provide you to make your job easier.

Karina

**Karina Ramirez**

Director, Internal Audit  
Apollo Shoes, Inc.

**This Apollo message (including any attachments) contains confidential information intended for a specific individual and purpose, and is protected by law. If you are not the intended recipient, you should delete this message and are hereby notified that any disclosure, copying, or distribution of this message, or the taking of any action based on it, is strictly prohibited.**

## **Apollo Shoes**

### **Accounting and Control Procedure Manual**

#### **Sales and Accounts Receivable**

Daily batches of sales invoices shall be analyzed by sales totals in the athletic shoes product lines. Sales credits are coded to three product line sales revenue accounts.

Charges to customer accounts should be dated the date of shipment.

When sales invoices are recorded, the numerical sequence shall be checked by an accounts receivable clerk, and missing invoices must be located and explained. The items shipped shall be compared to the items billed for proper quantity, price, and other sales order terms.

The general ledger supervisor shall compare the copy 2 daily batch total with the copy 4 individual accounts posting total sent from the accounts receivable department.

Discrepancies shall be investigated to help assure that the customer subsidiary accounts are posted for the same total amount posted to the control account.

At the end of each month, the total of the trial balance of customer account balances (prepared by the accounts receivable department) shall be reconciled to the general ledger control account by the general ledger supervisor.

Sales invoice batches shall be dated with the date of shipment, and totals of batches (including product line sales for athletic shoes) shall be accumulated each month and recorded in the accounts receivable control and sales revenue accounts. The general ledger supervisor shall approve all monthly summary entries before they are posted to the general ledger.

The treasurer shall approve all cash refunds and allowance credit memos for sales returns, after initiation by customer relations personnel.

The marketing vice president shall periodically analyze sales activity by product lines in comparison to budgets and forecasts and prior years' activity.

#### **Cash Management**

The monthly bank statements shall be mailed to the cash management department in the treasurer's office. Personnel use the duplicate deposit slips retained when bank deposits were made, the cash receipts journal listing, and the cash disbursements listing to reconcile the general bank accounts. The payroll bank account is also reconciled, utilizing the payroll register retained by the treasurer's office.

Cash management personnel shall compare cash receipts journal daily deposit records with the bank deposits and duplicate deposit slips when the general bank account reconciliation is performed.

At the discretion of the director of internal audit, internal auditors will occasionally make unannounced reviews of the bank account reconciliations. They may also prepare reconciliations without prior notice given to cash management personnel.

#### **Cash Receipts and Accounts Receivable Processing**

All cash receipts from customers related to sales shall be credited to accounts receivable individual and control accounts.

The accounts receivable department shall post credits to individual customer accounts, dating the entries with the date of the remittance list.

Statements of accounts receivable balances shall be mailed to customers each month by the accounts receivable accounting department. Customers' reports of disputes or differences shall be handled by customer relations personnel in the marketing department.

### Cash Disbursements

All disbursements shall be made by check, signed by the treasurer, including reimbursements of the petty cash funds.

Checks shall be made payable to a named payee and not to "cash."

Blank check stock shall be kept under lock and key in the accounts payable accounting department. Under no circumstances may blank checks be signed by the treasurer. Voided and spoiled checks shall be transmitted to the treasurer for inspection and later filed in numerical order with paid checks.

Cash disbursement journal entries shall be dated with the date of the check. The related monthly general ledger summary entries shall carry the date of the month summarized.

### Inventory Perpetual Records

Inventory additions shall be dated with the date of the receiving report.

Inventory issues shall be dated with the date of shipment.

### Fixed Asset Records and Transactions

When acquisition costs exceed the capital budget authorization by 10 percent or more, the additional expenditure shall be approved by the treasurer and board of directors, in advance if possible.

Zero salvage values shall be used in all depreciation calculations.

Useful life and depreciation method assignments for financial statement calculations shall follow these general guidelines:

Buildings	Declining Balance	15 years
Equipment	Declining Balance	3-6 years

All repair, maintenance, and capital additions less than \$5,000 shall be expensed. Amounts over \$5,000 should always be capitalized unless unusual conditions point to proper expensing.

Attachment: <<APManual.doc>>

Date: Mon, 29 OCT 2007 06:42:35 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Upcoming Apollo Shoes Engagement

Apollo denied our request to speak with the predecessor auditors because of “litigation concerns.” I’ve looked at the 8-K filed by Apollo and the auditors referenced in the 10-K. I didn’t attach a copy because it didn’t say much, just something about “incongruent goals,” blah, blah, blah. Against my advice, Arnold decided to accept the engagement anyway. Keep your eyes open!

The good news is that the predecessor auditors, Smith and Smith, CPAs, have a good reputation, so you can use last year’s audited numbers from the 10-K. The bad news is that we don’t have access to prior year working papers. **You’ll need to come up with programs for the substantive audit procedures for each of the functional balance sheet areas (indicated with an asterisk (\*) below).** You can download copies of the audit programs from AuditNet ([www.auditnet.org](http://www.auditnet.org)) under “Auditors Sharing Audit Programs” or get them from an old auditing textbook. My preference is to place the audit programs at the beginning of each section. Label the sections as follows:

GA series (GA-1, GA-2, etc.)	General and Administrative (Planning)
ICC series	Revenue/Collection Cycle Internal Control Evaluation
ICD series	Purchasing/Disbursements Internal Control Evaluation
ICP series	Payroll Internal Control Evaluation
A series	Trial Balance/Financial Statements/Adjustments/Footnotes
B series*	Cash Substantive Workpapers
C series*	Accounts Receivable Substantive Workpapers
D series*	Inventory Substantive Workpapers
E series*	Prepays Substantive Workpapers
F series*	Property, Plant and Equipment Substantive Workpapers
I series*	Other Assets Substantive Workpapers
L series*	Current Liabilities Substantive Workpapers
N series*	Notes Payable Substantive Workpapers
Q series*	Stockholders’ Equity Substantive Workpapers
R series*	Revenue Substantive Workpapers
X series*	Expenses Substantive Workpapers

Because we are so understaffed during busy season, you are going to have to perform the bulk of the audit yourself. I was only able to get you a spring intern (Bradley Crumpler) from Caledonia State University (heck, I didn’t even know they had an accounting program!). He is the only unassigned person in the office right now. Because I am unsure of his training, I suggest that you only use him for “grunt work.” Also, I checked into the background and experience of Karina Ramirez, Apollo’s Internal Auditor. Apparently, she was an auditor with a Big 4 firm for 8 years before coming to Apollo and has served on the state CPA society’s ethics committee. I also went through her workpapers; they appear to be top-notch. Lastly, she reports directly to the Audit Committee, so we can rely on her to be objective. I think we can rely on her work during our engagement.

DW

P.S. Thanks for drafting the engagement letter. I only had to make a couple of changes before Arnold signed it.

Date: Mon, 7 JAN 2008 12:45:39 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Apollo Shoes minutes  
Attachments: << AudComMins—010307.doc>><< AudComMins—  
063007.doc>><< AudComMins—010308.doc>>

Hope the inventory observation went well. I saw Bradley in the office working on some inventory stuff. He said that he would e-mail it to you when it was completed.

Sorry I haven't made it out to Apollo yet. I did meet with Jeff Chestnutt (Apollo's corporate secretary) who allowed me to copy the minutes of the Board of Directors. The board of directors met twice during the period under audit, January 1 through December 31, and once more last week. I have attached copies. **Study these minutes** – they provide a history of every important event and transaction that Apollo has undergone during the past year. **Make notes in the form below for the audit working papers of matters relevant for the audit of the 2007 financial statements. Prepare a working paper (GA-3) for my review with proper headings and these two columns:**

Information Relevant to 2007 Audit

Audit Action Recommended

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You may want to stick a copy of the minutes in the workpapers (*GA-3-1*, *GA-3-2*, etc.) behind your memo when you are done with them.

DW



MEETING HELD JANUARY 3, 2007

Larry Lancaster, incoming chairman of the board, presided over the first meeting of the year, beginning at 3 P.M. The meeting was conducted in the boardroom of Apollo's new global headquarters. All members were present:

Larry Lancaster  
Josephine Mandeville\*\*  
Ivan Gorr\*  
Harry Baker\*

Fritz Brenner\*\*  
Theodore Horstmann\*\*  
Eric Unum

\* Outside director \*\* Outside director and member of the audit committee.

The minutes of the December 15, 2006 meeting were reviewed and approved.

Reporting on the annual meeting of shareholders, Mr. Lancaster welcomed the new or reelected board members: Josephine C. Mandeville, Professor of Accountancy and Typing at the Graduate School of Business and Clerical Skills; Ivan W. Gorr, President and CEO of Far More Drugs; Harry R. Baker, Executive Vice President and Treasurer of the Iguana Growers of America Inc., Theodore Horstmann, Minister of Commerce of Anglonesia; and Fritz Brenner, President of The Widget Corporation

Mr. Unum presented the forecast for the year, attached. Sales are expected to increase 10 percent, with costs of goods sold and general expenses bearing about the same relationships as experienced last year. Mr. Lancaster stated, "Well, they better increase by that much, or heads will roll!" Mr. Lancaster's plan to move production to within the company was discussed. Over Mr. Horstmann's vehement disagreement, the board authorized purchase of equipment totaling \$1.3 million to facilitate internal production of Apollo products by a vote of 6-1.

Mr. Unum reported that the Company's short-term line of credit was refinanced as of January 2, 2007 and rolled into a long-term note payable with the Twenty-First National Bank of Maine, due January 1, 2008.

Mr. Brenner moved a declaration of dividends for the year ended the previous December 31. The motion died for lack of a second.

Mr. Unum moved, and Mr. Lancaster seconded, officers' salary increases of 10 percent for 2007. The board approved these salaries by a 4-3 vote:

President and CEO, Larry Lancaster	\$2,750,000
Exec Sr. VP and CFO, Joe Bootwell	1,320,000
VP Marketing, Fred Durkin	1,100,000
VP Finance, Eric Unum	649,000
VP Legal Affairs, Sue Fultz	1,650,000
VP Operations, Daisy Gardner	450,000
Internal Audit Director, Karina Ramirez	235,000
Treasurer, Mary Costain	222,000
Controller, Samuel Carboy	214,000

Mr. Lancaster encouraged everyone to watch the 2007 Superbowl to watch for Apollo's 15-second commercial. He noted that the cost of the commercial time rose approximately 10% from last year. The cost of production and airing the ad is now approaching \$1,000,000.

Meeting ended 5:30 P.M.

/s/ Jeff Chesnut, Secretary

AudComMins—010308.doc

MEETING HELD JUNE 30, 2007

Larry Lancaster, chairman of the board, presided over the second meeting of the year, beginning at 3 P.M. All members were present:

Larry Lancaster  
Josephine Mandeville\*\*  
Ivan Gorr\*  
Harry Baker\*

Fritz Brenner\*\*  
Theodore Horstmann\*\*  
Eric Unum

\* Outside director \*\* Outside director and member of the audit committee.

The minutes of the January 3 meeting were reviewed and approved.

Mr. Lancaster reported on damage caused by a “Nor’easter” storm that hit Shoetown in April. Damages amounted to approximately \$50,000, just under the insurance deductible.

Mr. Unum reported that sales revenues are not meeting expectations, primarily because of parents’ growing disenchantment with spoiling their children; parents were no longer willing to buy \$300 premium shoes for their kids as they did in previous years. Mr. Gorr concurred and mentioned something about “not sparing the rod.” In order to compensate for decreased sales, the Company has raised prices by about 10% with respect to product costs.

Mr. Lancaster lamented that the quality of Apollo products was too high—the shoes were just not wearing out fast enough. Mr. Lancaster also stated that because of the strength of current product lines and as a cost-cutting measure, he decided to stop research and development efforts on the Phoneshoe, thereby eliminating Research and Development expense for the current year. The development lab will be modified in 2008 to house a personal gym for corporate executives. Scientists working in the lab have been reassigned to maintenance duties elsewhere in the company. The Company has also saved postage and telephone expense through increased use of e-mail.

In other business, the board authorized the write-off of one account receivable for \$8,810.13 for an account that had been outstanding for over a year. Mr. Lancaster noted that he did not anticipate any other write-offs during the year, or that “heads would roll!”

Mr. Unum moved that Apollo advance \$1,000,000 to Mr. Lancaster as a personal loan to cover personal legal expenses related to his previous employer. Mr. Unum further suggested that the promissory note plus accrued interest of 1% per year be due on June 30, 2045. Mr. Lancaster suggested that it be recorded in “other receivables,” rather than “employee advances” so as to not trouble shareholders with needless details. After general agreement among the board that similar options be made available to other board members in the future on an as needed basis, the advance was approved unanimously. Mr. Lancaster asked Mr. Unum to have the check drawn to him immediately at the conclusion of the board meeting.

The board unanimously supported Ernst Hathaway’s promotion from Director of MIS to VP-Information Systems. He reported on the plans for the purchase and installation of a new information system. The board authorized up to \$1.2 million for the purchase of the new computer system. Ms. Mandeville offered to consult on the purchase and installation. To fund the purchase and pay other expenses, Mr. Unum requested that the board authorized a draw of \$44,053,000 on the Company’s line of credit on July 1. This proposal was unanimously approved.

Meeting ended 7:30 P.M.

/s/ Jeff Chesnut, Secretary

MEETING HELD JANUARY 3, 2008

Larry Lancaster, chairman of the board, presided over the regular meeting, beginning at 2 P.M.  
All members were present:

Larry Lancaster  
Josephine Mandeville\*\*  
Ivan Gorr\*  
Harry Baker\*

Fritz Brenner\*\*  
Theodore Horstmann\*\*  
EricUnum

\* Outside director \*\* Outside director and member of the audit committee.

The minutes of the June 30 meeting were reviewed and approved.  
The selection by the audit committee of Anderson, Olds & Watershed as auditors was ratified.  
The \$750,000 fee was approved for the 2007 audit.

Ms. Mandeville moved, and Mr. Gorr seconded, a proposal to declare retroactively a cash dividend of \$810,000 payable March 1 to stockholders of record on December 31. Approved by a vote of 5–2.

Ms. Fultz, VP-Legal affairs, stated that on January 2, 2008 (yesterday), a class action suit alleging gross negligence and violation of warranty of merchantability was brought against Apollo for \$12,000,000. The action stems from the use of one of the Company's products in an aquatic environment, which may have caused severe electrical shock to the wearer(s). She is working closely with Apollo's legal counsel, Perley Stebbins, to vigorously defend Apollo's good name. Ms.Fultz stated that the company's current insurance does not cover these types of actions.

Mr. Baker inquired as to the status of the machinery purchased in early 2006. Mr. Lancaster replied that the machinery would be set up "soon."

Mr. Lancaster moved and Mr. Unum seconded the approval of officers' bonuses for the year just ended December 31. Approved by a 4–3 vote.

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President, Larry Lancaster	\$200,000
VP Marketing, Fred Durkin	50,000
VP Finance, Eric Unum	50,000
VP Information Systems, Ernst Hathaway	50,000
VP Legal Affairs, Sue Fultz	50,000
VP Operations, Daisy Gardner	50,000

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The Board approved the Company's contribution to the Employee Benefits program. Mr. Unum stated that the contribution was increased by \$300,000 for 2007, up 10% over the past several years to appease growing employee dissatisfaction. Given the company's plans to automate the distribution process, Mr. Unum stated that employee benefits will decrease significantly in future years.

Mr. Unum noted also that the company decided not to air a Superbowl ad this year.

Meeting ended 8:30 P.M.

/s/ Jeff Chesnut, Secretary

Date: Tue, 8 JAN 2008 08:49:35 +0000  
 From: "Darlene Wardlaw" <DW@aow.cpa>  
 Subject: Apollo Shoes Trial Balances  
 Attachments: <<2007 Apollo Trial Balance.xls>>, <<2006 Apollo Trial Balance.xls>>

I got a copy of Apollo's 2007 year-end trial balance (attached) from Sam Carboy, Apollo's Controller. I also got a copy of last year's 2006 audited trial balance from Karina. I've attached copies of both to this e-mail and also posted them to the AOW intranet where you can also download them.

I received it a week after he promised it to me, so apparently it wasn't as clean a year-end close as he expected. **I want you to put the numbers into three spreadsheets** (one for the comparative (i.e., two-year) balance sheet (*A-1*), one for the comparative income statement (*A-2*), and one for the comparative statement of cash flows (*A-3*)). I know that everyone has a particular style of workpaper formatting, but my preference is for the following columns for the income statement and balance sheet:

Acct #	Acct Title	W/P Ref	Last year's (Audited)	Current Year (unaudited)	Adjustments		Current Year (Audited)
					Dr.	Cr.	

DW

Apollo Shoes, Inc  
Preclosing Trial Balance (Audited)  
December 31, 2006

Account ID	Account Description	Debit	Credit
10100	Cash on Hand	\$1,987.28	
10200	Regular Checking Account	\$198,116.52	
10300	Payroll Checking Account	\$0.00	
10400	Savings Account	\$3,044,958.13	
11000	Accounts Receivable	\$16,410,902.71	
11500	Allowance for Doubtful Accounts		\$1,262,819.88
12000	Inventory – Spotlight	\$18,825,205.24	
12300	Reserve for Inventory Obsolescence		\$3,012,000.00
14100	Prepaid Insurance	\$743,314.38	
14200	Prepaid Rent	\$200,000.00	
14300	Office Supplies	\$7,406.82	
14400	Notes Receivable-Current		
14700	Other Current Assets		
15000	Land	\$117,000.00	
15100	Buildings and Land Improvements	\$623,905.92	
15200	Machinery, Equipment, Office Furniture	\$433,217.10	
17000	Accum. Depreciation		\$164,000.00
19000	Investments	\$612,691.08	
19900	Other Noncurrent Assets	\$13,840.59	
20000	Accounts Payable		\$4,633,118.09
23100	Sales Tax Payable		\$0.00
23200	Wages Payable		\$29,470.32
23300	FICA Employee Withholding		\$1,318.69
23350	Medicare Withholding		\$583.99
23400	Federal Payroll Taxes Payable		\$6,033.01
23500	FUTA Tax Payable		
23600	State Payroll Taxes Payable		\$2,815.47
23700	SUTA Tax Payable		
23800	FICA Employer Withholding		\$1,318.69
23900	Medicare Employer Withholding		\$583.99
24100	Line of Credit		\$10,000,000.00
24200	Current Portion Long-Term Debt		
24700	Other Current Liabilities		
27000	Notes Payable-Noncurrent		
39003	Common Stock		\$8,105,000.00
39004	Paid-in Capital		\$7,743,000.00
39005	Retained Earnings		\$1,899,120.65
40000	Sales		\$246,172,918.44
41000	Sales Returns	\$4,497,583.20	
42000	Warranty Expense	\$1,100,281.48	
45000	Income from Investments		\$0.00
46000	Interest Income		\$204,302.81
50010	Cost of Goods Sold	\$141,569,221.61	
57500	Freight	\$4,302,951.46	
60000	Advertising Expense	\$897,140.01	
61000	Auto Expenses	\$208,974.39	
62000	Research and Development	\$31,212,334.17	
64000	Depreciation Expense	\$133,000.00	
64500	Warehouse Salaries	\$4,633,383.82	
65000	Property Tax Expense	\$80,495.32	
66000	Legal and Professional Expense	\$3,605,133.96	
67000	Bad Debt Expense	\$1,622,425.99	
68000	Insurance Expense	\$853,942.65	
70000	Maintenance Expense	\$61,136.04	
70100	Utilities	\$135,642.99	
70110	Phone	\$76,373.78	
70120	Postal	\$128,033.21	
71000	Miscellaneous Office Expense	\$17,023.27	
72000	Payroll Tax Exp	\$1,550,989.06	
73000	Pension/Profit-Sharing Plan Ex	\$3,000,000.00	
74000	Rent or Lease Expense	\$2,603,485.87	
77500	Administrative Wages Expense	\$16,875,305.98	
78000	Interest Expense	\$875,000.00	
78500	Income Tax Expense – Federal	\$2,365,000.00	
78510	Income Tax Expense – State	\$429,000.00	
80000	Loss on Legal Settlement	\$19,172,000.00	
		\$283,238,404.03	\$283,238,404.03

Apollo Shoes, Inc  
Preclosing Trial Balance  
December 31, 2007

Account ID	Account Description	Debit Amt	Credit Amt
10100	Cash on Hand	\$2,275.23	
10200	Regular Checking Account	\$532,125.92	
10300	Payroll Checking Account		
10400	Savings Account	\$3,670,599.15	
11000	Accounts Receivable	\$49,780,259.98	
11400	Other Receivables	\$1,000,000.00	
11500	Allowance for Doubtful Accounts		\$1,254,009.75
12000	Inventory	\$67,424,527.50	
12300	Reserve for Inventory Obsolescence		\$867,000.00
14100	Prepaid Insurance	\$3,374,213.78	
14200	Prepaid Rent		
14300	Office Supplies	\$8,540.00	
14400	Notes Receivable-Current		
14700	Other Current Assets		
15000	Land	\$117,000.00	
15100	Buildings and Land Improvements	\$674,313.92	
15200	Machinery, Equipment, Office Furniture	\$2,929,097.13	
17000	Accum. Depreciation		\$610,000.00
19000	Investments	\$2,038,780.39	
19900	Other Noncurrent Assets	\$13,840.59	
20000	Accounts Payable		\$1,922,095.91
23100	Sales Tax Payable		
23200	Wages Payable		
23300	FICA Employee Withholding		\$4,291.25
23350	Medicare Withholding		\$11,414.99
23400	Federal Payroll Taxes Payable		\$118,086.12
23500	FUTA Tax Payable		
23600	State Payroll Taxes Payable		\$42,397.24
23700	SUTA Tax Payable		
23800	FICA Employer Withholding		\$4,291.25
23900	Medicare Employer Withholding		\$11,414.99
24100	Line of Credit		\$44,053,000.00
24200	Current Portion Long-Term Debt		
24700	Other Current Liabilities		
27000	Notes Payable-Noncurrent		\$10,000,000.00
39003	Common Stock		\$8,105,000.00
39004	Paid-in Capital		\$7,743,000.00
39005	Retained Earnings		\$6,270,483.64
40000	Sales - Spotlight		\$245,213,452.88
41000	Sales Returns	\$13,600,220.89	
42000	Warranty Expense	\$1,158,128.47	
45000	Income from Investments		\$1,426,089.31
46000	Interest Income		\$131,881.46
47000	Miscellaneous Income		\$2,145,000.00
50010	Cost of Goods Sold	\$130,246,645.26	
57500	Freight	\$4,236,263.09	
60000	Advertising Expense	\$986,854.01	
61000	Auto Expenses	\$214,502.80	
62000	Research and Development	\$212,864.02	
64000	Depreciation Expense	\$446,000.00	
64500	Warehouse Salaries	\$4,720,715.56	
65000	Property Tax Expense	\$84,332.45	
66000	Legal and Professional Expense	\$1,902,224.45	
67000	Bad Debt Expense		
68000	Insurance Expense	\$36,106.92	
70000	Maintenance Expense	\$49,502.87	
70100	Utilities	\$137,332.18	
70110	Phone	\$52,599.02	
70120	Postal	\$77,803.61	
71000	Miscellaneous Office Expense	\$24,891.82	
72000	Payroll Tax Exp	\$1,577,811.85	
73000	Pension/Profit-Sharing Plan Ex	\$3,300,000.00	
74000	Rent or Lease Expense	\$1,203,574.00	
77500	Administrative Wages Expense	\$16,197,225.43	
78000	Interest Expense	\$2,591,736.50	
78500	Income Tax Expense - Federal	\$13,069,000.00	
78510	Income Tax Expense - State	\$2,241,000.00	
		\$329,932,908.79	\$329,932,908.79

Date: Wed, 9 JAN 2008 10:44:22 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Analytic Procedures

1. I need you to perform preliminary analytical procedures on the financial statements.
  - a. **Calculate common-size financial statements and dollar amount and percent changes.** I suggest you simply make a copy of your spreadsheet from your pro-forma financial statements that I asked you to prepare yesterday and remove the adjustment columns. Have there been any significant changes that we need to examine closer?
  - b. **Calculate financial ratios.** Assume the market value of the common stock is \$24 million in both the current and prior years. Does anything jump out at you?
  - c. *If you have time, compare Apollo's numbers with those of its closest competitors, Nike and Reebok.* You can get those companies' numbers from EDGAR ([www.sec.gov](http://www.sec.gov)). I am not sure if industry averages are available, but that too would be helpful.
2. **Write a brief memo (GA-4)** highlighting what you believe are potential problem areas. Include printouts of your calculations as support (*GA-4-1, GA-4-2, etc.*)

DW

Date: Wed, 9 JAN 2008 12:15:49 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Materiality for Apollo Shoes Engagement

**You need to prepare a memo (GA-5) addressing materiality for Apollo Shoes.** Remember that the workpapers document that we are following Generally Accepted Auditing Standards. In the memo,

- 1. Briefly describe independent auditors' concept of materiality.**
- 2. Describe some common relationships and other considerations used by auditors when assessing the dollar amount considered material.** In other words, what are some common measures of materiality with respect to income, sales, and total assets?
- 3. Based upon your professional judgment and your discussion of items 1 and 2 above, determine an amount you consider to be a minimum material misstatement for Apollo Shoes and justify your recommendation in your memo.**

DW



Date: Thur, 10 JAN 2008 1:15:49 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: SAS 99 Memo

**We need a memo (GA-6) addressing the potential for fraud for Apollo Shoes.**

This workpaper is necessary to document that we are following SAS 99 fraud guidance. Some things you might want to include in your memo:

- Have you noticed any “red flags” in either the minutes or your analytic procedures so far?
- Address fraud risk in general terms: types of risk (Remember that improper revenue recognition is always a “red flag.”), significance of risk, likelihood of risk (what is the probability of fraud?), pervasiveness or risk (is fraud risk centralized to one function or individual or is it throughout the organization?)
- How might a fraud might be perpetrated and concealed in the entity
- Suggest ways that we might alter our audit approach to address the potential for fraud, such as assignment of personnel, predictability of auditing procedures, and examination of journal entries and other adjustments

We will need to get together with the entire audit team (you, me, and Bradley) for a “brainstorming” session next week.

DW

Date: Thu, 10 JAN 2008 07:42:35 +0000  
From: "Arnold Anderson" <AA@aow.cpa>  
Subject: Apollo Shoes and Computers

Darlene mentioned your inquiry earlier this week, and yes, Anderson, Olds, and Watershed (AOW) was aware of Apollo's mid-year computer installation. In fact, the planned conversion was discussed and AOW was advised of the conversion process by the director of internal audit. I haven't thought about it much, so I appreciate you bringing it to my attention. The more I think about it, the more I am concerned about how the computer processing of the last two quarters' transactions will affect our audit this year.

Also, our firm has recently obtained several laptop computers but we have not used them on any audit to date. To be honest, I am not too comfortable with computers but I am interested in how they can increase our firm's profitability. Any suggestions as to how computers might be used on the Apollo Shoes engagement? For example, can correspondence, memos, and auditing working papers be prepared and maintained on the computer? Could they save audit time as well as make the audit easier for me to supervise and review?

**Prepare a memo in the General and Administrative section of the current year workpapers (GA series) to document how planning might be affected by the computer processing of accounting transactions.** I suggest you consider such things as the extent of computer usage, complexity of computer operations, organization structure of computer activities, availability of data, computer-assisted audit techniques, and need for specialized skills.

"Uncle" Arnie

Date: Thu, 10 JAN 2008 10:07:15 +0000  
From: "Karina Ramirez" <Kramirez@ApolloShoes.com>  
Subject: Upcoming Apollo Shoes Engagement

Attachment: <<InfoSystemDocumentation.doc>>

I'm sorry I missed you when you stopped by earlier today. Per your request, I have tried to summarize the new information processing system:

The computer accounting system is a combination of a simple batch computer system and an advanced computer system. Accounting clerks directly enter accounting transactions from their terminals located in the various accounting departments; thus, entry is online. However, the transactions are not validated at entry to check for input errors. To prevent errors from entering the financial records, the transactions are not immediately posted to the various subsidiary ledgers maintained in the database.

Validation occurs after the transactions are balanced by batch. The transactions are then posted to the ledgers by batches every night; therefore, the various databases, such as inventory, are only up-to-date as of the prior working day's transactions. (I insisted that Apollo start the accounting processing in this mode to establish control. As employees become more familiar with the terminal entry and control over transaction entry proves adequate, I will consider moving to online data entry and online input validation.)

In addition, Apollo Shoes is using a wireless local area network multiserver with a small information systems staff. This small staff cannot support all of the ideal division of duties that would provide the proper separation auditors desire among computer personnel.

I've attached an excerpt from our workpapers that describes the system in more detail. I hope this summary satisfies your needs. Please let us know if there is any additional information that you require.

Karina

**Karina Ramirez**

Director, Internal Audit  
Apollo Shoes, Inc.

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The information systems department became active in June. At that time the director, Ernst Hathaway, was promoted to vice president. Apollo obtained a wireless local area network (LAN) multiserver soon after and began testing the hardware and software. The testing of the new computer system progressed throughout the early fall with the accounting processing run on both the old manual system and the new computer system for the month of September. On October 1, Apollo converted to the wireless multiserver system. As the new computer system was designed and customized to Apollo's needs, every effort was made to keep as many as possible of the procedures and business documents used in the manual system. This made the transition to the computer system easy on the employees, thus reducing training and employee objections to the computer. Further, most of the controls and separation of duties previously described were retained.

#### Hardware Description

Apollo purchased a wireless local area network (LAN) multiserver, featuring 200 GB (gigabytes, or 200 billion bytes) of storage capacity. This system can support 400 terminals, but Apollo currently uses about 20. This system utilizes several disk drives where the computer software and the active accounting databases are stored. Two tape drives are online to provide the logging of transactions and to provide means to back up the data on the disk drives. The computer room contains two printers, a laser printer and a 1,000-lines-per-minute line printer. A printer bank is located in the accounting department.

#### Accounting Software

The financial accounting software is an integrated application combining a comprehensive set of general ledger, accounts receivable, and accounts payable functions. The financial accounting system allows online entry with online data validation and online posting. However, to provide better control, Apollo has elected to utilize batch entry, deferred validation, and deferred posting. In this mode, the data are not validated at the time of entry. A special input validation routine, which reports all validation errors, is employed after the batches are balanced. The erroneous entries can be corrected through maintenance functions. The transfers of transactions from the Accounts Receivable and Accounts Payable modules to the General Ledger module also are done in batch mode. Batches are validated and posted every night; thus, the detailed accounting records are never more than one day from being accurate. Two levels of security are provided in the system. The terminals require a special password. Access to any function (data entry, data review, review invocation) for each unique set of transactions is controlled by another set of passwords. Thus, allowed operations are isolated to the department that must enter and use the data. For example, the order entry accounting clerks cannot access the cash disbursement records or enter cash disbursement transactions without knowledge of the appropriate passwords.

#### Organization and Duties of Information Systems Personnel

The information systems department consists of Ernst Hathaway—the Vice President of Information Systems, a systems development project manager and two programmer/analysts, an operations manager (who also serves as the librarian and control clerk), and two machine operators. Following is a brief summary of the responsibilities and duties of each.

*Vice President of Information Systems (VP-IS).* The VP-IS is responsible for computer processing operations. Included responsibilities include long-range planning, setting policy and procedures for information systems (IS) employees, approving all equipment purchases, and preparing the department budget. The VP-IS also provides the primary contact with other department vice presidents and has overall responsibility for training other department personnel in the use of the new system. The VP-IS works with the systems development manager and the various users to set priorities for the programmer/analysts.

*Systems Development Project Manager.* The project manager is primarily responsible for all modifications to the financial accounting system and other systems development projects. He creates the specifications for projects after consultation with the users and assigns projects to the programmer/analysts. Other responsibilities include interface with the users on a one-to-one basis to resolve their problems and consider their requests for modifications, education of the programmer/analysts, and working with the vendor service representatives on software problems.

*Operations Manager.* The operations manager's primary responsibilities are to ensure that the computer is operating properly and to direct the work of the two operators. Additional duties include system security, librarian, database administrator, and control clerk. The operations manager also is the person who works with vendor hardware service and maintenance personnel.

# Internal Control

Date: Thu, 17 JAN 2008 7:42:53 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Understanding the Revenue Cycle  
Attachment: <<RevenueICQ.doc>>

I've attached a Sales internal control questionnaire from another engagement that I think you can use for Apollo. You may want to talk to Karina Ramirez to get answers to the questions.

1. **Complete the ICQ for Apollo.** For "yes" answers, add a comment stating which department and clerk performs the function. For "no" answers, describe the possible "errors" or "frauds" that could occur because of the control weakness.
2. I've started a flowchart and listed some strengths and weaknesses, but had to leave before I could finish it. **See if you need to add any more strengths and/or weaknesses that you find from the ICQ and narrative descriptions of the revenue cycle.**

DW

Internal Control Questionnaire—Sales Transaction Processing

Assertions and Questions	Yes, No, N/A	Comments
<b>Occurrence assertion:</b>		
1. Is the credit department independent of the sales department?		
2. Are sales of the following types controlled by the same procedures described below? Sales to employees, COD sales, disposals of property, cash sales, and scrap sales.		
3. Is access to sales invoice blanks restricted?		
4. Are pre-numbered bills of lading or other shipping documents prepared or completed in the shipping department?		
<b>Completeness assertion:</b>		
5. Are sales invoice blanks pre-numbered?		
6. Is the sequence checked for missing invoices?		
7. Is the shipping document numerical sequence checked for missing bills of lading numbers?		
<b>Accuracy assertion:</b>		
8. Are all credit sales approved by the credit department prior to shipment?		
9. Are sales prices and terms based on approved standards?		
10. Are returned sales credits and other credits supported by documentation as to receipt, condition, and quantity, and approved by a responsible officer?		
11. Are shipped quantities compared to invoice quantities?		
12. Are sales invoices checked for error in quantities, prices, extensions and footing, and freight allowances, and checked with customers' orders?		
13. Is there an overall check on arithmetic accuracy of period sales data by a statistical or product-line analysis?		
14. Are periodic sales data reported directly to general ledger accounting independent of accounts receivable accounting?		
<b>Classification objective:</b>		
15. Does the accounting manual contain instructions for classifying sales?		
<b>Cutoff objective:</b>		
16. Does the accounting manual contain instructions to date sales invoices on the shipment date?		

<<RevenueICQ.doc>>

Date: Thu, 17 JAN 2008 13:02:47 +0000  
From: "Karina Ramirez" <Kramirez@ApolloShoes.com>  
Subject: Revenue and Collection Cycle Documentation

I have excerpted from our workpapers a description of Apollo's Accounting and Control Systems over the Revenue/Collection Cycle and Purchasing/Cash Disbursements. I've also gave a copy of a flowchart of sales transaction processing to Darlene.

We have not developed one for the purchasing cycle yet, but we plan to do so once your audit is ended and our assistance is no longer necessary.

Hope you find the info useful. Let me know if you have any questions.

Karina

**Karina Ramirez**

Director, Internal Audit  
Apollo Shoes, Inc.

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## **Apollo Accounting and Control Systems: Revenue and Collection Cycle**

As evident in the company organization chart, Apollo has several departments and offices concerned with management, accounting, and control. The company also has an abbreviated accounting and control manual, although the manual has not been kept up to date. Officers and employees have described accounting and control procedures informally under the heading of several transaction cycles. Their descriptions of the company's current revenue cycle activities appear below.

### **Credit Approval and Sales Processing**

Customer orders are received in the mail, over the telephone, and over the counter by salesclerks in the marketing department. The clerks prepare written sales orders for telephone and counter customers, signing each one and asking the counter customers to sign in person. The sales orders contain the customer name, a customer number (assigned immediately for new customers), customer address, identification of products, and the quantity ordered. The sales order forms are kept in the salesclerks' working area through which many people pass during the day. The sales order documents used in the offices are not prenumbered.

The salesclerks prepare an estimate of the dollar amount of the order and write it on the form. The sales orders are then hand-carried to the credit manager, who is in the treasurer's department. The credit manager checks the customers' accounts receivable balances and other credit file information using a computer-based inquiry system. If credit is approved, the credit manager signs the sales order.

If credit is not approved, the customer is asked to pay in advance, and the sales order is held until notification of payment is received from the cashier. The sales order is stamped "paid" and sent to the billing department. Likewise, when customers pay cash over the counter, the money is taken by the cashier, and the sales order is stamped "paid" and sent to the billing department. For bookkeeping convenience, these "cash" sales are treated the same as credit sales, with the invoice amount being charged to an account receivable set up for the customer, and the customer's payment being applied immediately to the same account.

After credit has been approved, or a payment received, the sales orders are sent to the billing department in the controller's office. The billing clerks produce a four-copy sales invoice on a prenumbered invoice form. Using a screen facsimile on a personal computer, they insert the customer and product information from the customer order, the date, and the product unit prices from an approved price list. Sales taxes, delivery charges, and the invoice total are computed and put on the invoice. The sales invoice forms are kept in a locked closet in the billing department, and sheets in the numerical sequence are removed only for billing clerks' immediate loading onto the computer printer.

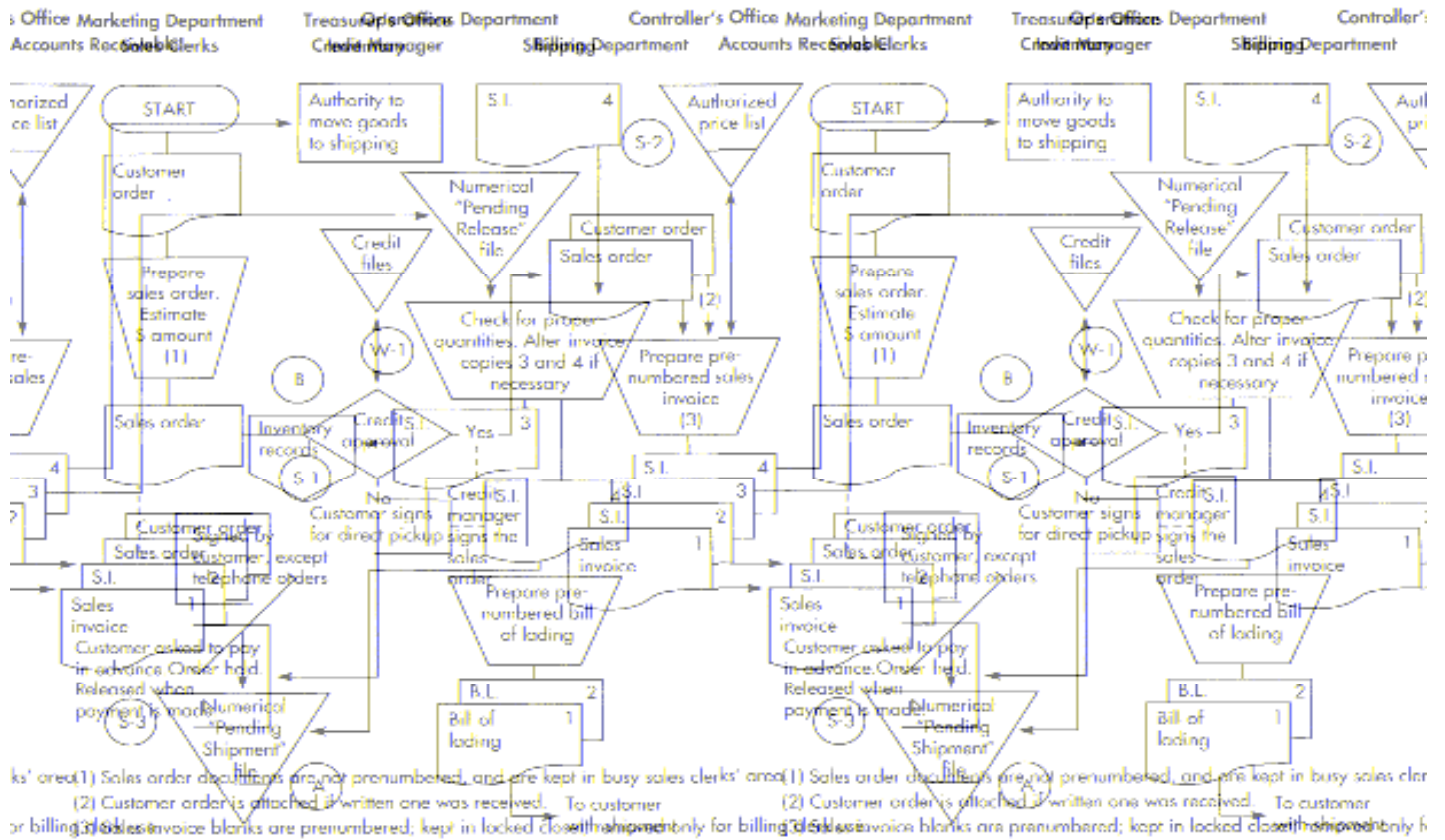
Copy 1 and copy 2 of the sales invoice, the customer order, and the sales order are sent to the accounts receivable accounting department, which is also in the controller's office. These documents are held in invoice numerical order in a "pending shipment" file, awaiting matching with copy 4 of the invoice, which was first sent to the inventory stores department as authority for the storeskeeper to put the order together and move it to the shipping department. Copy 3 of the invoice is sent to the shipping department, where it is initially held in a "pending release" file.

#### Shipment and Delivery

Upon receipt of an invoice copy 4, which serves as the authorization to move goods to the shipping area, the inventory storeskeeper supervises removal of shoe products from shelves and bins. Copy 4 is sent to the shipping area with the products. In the shipping area, shipping employees remove copy 3 from the "pending release" file. They check both copy 3 and copy 4 for the correct quantity of each product, then pack the order in suitable boxes. Copy 3 is sent to the inventory records department in the controller's office, where it serves as the source of entries to reduce the perpetual inventory records. If any items shown on the invoice are not shipped, the handlers are supposed to alter the invoice copies to show the correct quantity.

When customers are on the premises, they can pick up their own orders at the shipping area, where they are asked to sign copy 4 as acknowledgment of receipt. Otherwise, a prenumbered bill of lading is filled out in two copies for shipments by contract truckers. Copy 1 of the bill of lading is attached to the shipment. Copy 2 of the bill of lading is sent with invoice copy 4 to the accounts receivable accounting department.

# Apollo Revenue Cycle Flowchart



## **Apollo Accounting and Control Systems: Purchasing and Expenditure Cycle**

The employee prepares a purchase requisition and has a supervisor approve it. The supervisor retains Copy 2 of the pre-numbered purchase requisition for the department, sends Copy 1 to the Purchasing Department and Copy 3 to Accounts Payable.

When the Purchase Department receives the purchase requisition, they search the approved vendor list and consult the listed prices for the goods desired for each vendor. Once a vendor has been selected, five copies of a pre-numbered purchase order are prepared. Copy 5 is retained in the purchasing department and filed with the accompanying purchase requisition. Copy 2 is sent back to the department who prepared the purchase requisition, where both source documents are filed by number together. Copy 3 is sent to the Receiving Department. However, their copy is modified so that the quantity of the items ordered is blacked-out. Copy 4 is sent to Accounts Payable. Copy 1 of the purchase order is sent to the selected vendor. When the goods are received, the invoice is sent to Accounts Payable and the packing slip is retained in Receiving. The Receiving department verifies the order by comparing the external packing slip with the internal purchase order. Then they count and inspect the items received. The blacked-out purchase order helps to ensure accurate counting of the items ordered. To further assure that the items received are counted, the receiving clerk is required to sign the receiving report. Once the manual process is complete, the inventory file is updated to reflect the goods received and three copies of a pre-numbered receiving report are prepared. Copy 1 and the goods received are sent to the department that requested the items, where it is filed with the accompanying purchase requisition and purchase order. The Receiving Department files Copy 2 of the receiving report with the packing slip and their copy of the purchase order. Copy 3 of the receiving report is sent to A/P where it, the purchase order, and the purchase requisition are compared to the vendor's invoice for accuracy. The voucher package is then filed according to payment date. This allows the potential for taking any vendor discounts offered. When payment is due, a disbursement voucher is prepared and is sent to the cashier and the voucher package is sent to the Finance Department.

Upon receipt of the disbursement voucher, the cashier will review, sign and cancel the disbursement voucher and prepare a check. The VP of Finance will sign the check after reviewing it with the voucher package for consistency and accuracy. The VP of Finance cancels the voucher package and sends it to A/P. The canceled disbursement voucher is sent to A/P from the cashier, where it is matched and filed with the accompanying canceled voucher package. The VP of Finance sends a copy of each signed check to A/P. The copy is then attached to the canceled voucher package and canceled disbursement voucher and filed as paid. A journal entry is recorded to show the payment of the payable.

Date: Fri, 18 JAN 2008 08:13:24 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Revenue Cycle Bridge Working Paper

We need to make sure that we address the fraud auditing standard (SAS 99) in the workpapers, specifically the identification of potential for fraud (and errors for that matter) in the revenue cycle.

**I need you to prepare a bridge working paper (ICC-1) for the audit of Apollo Shoes as of December 31, 2007, addressing this issue.** This is what I need you to do:

1. In the first column, use an index number (S-# or W-#) cross-referenced to your flowchart to indicate potential strength or weakness.
2. In the second column, describe the control activity (or lack thereof) that may serve to prevent, detect, or correct errors or frauds. Understand that Apollo may or may not have the control activity in place. If they do, we may test the control if that is cost-effective. If they don't, we can propose the control as a management letter comment.
3. In the third column, describe the audit implications of the strengths/weaknesses related to the control activities with respect to transactions or accounts reported in the financial statements (e.g., the presence of a credit check ensures that sales are only made to creditworthy customers; a lack of a credit check would allow sales to customers unable to pay, and therefore ultimately increase bad debt expense).
4. In the fourth column, describe specifically how (recalculation, reperformance, inquiry and observation, etc.) you would test the control.
5. Finally, add a fifth column for compensating audit procedures. If the control activity is not in place, or the control activity is in place but not effective, we need to determine what audit procedure (i.e., a compensating test) we could use to catch them. (For example, we can use customer confirmations to test the validity of the transactions if we can't rely on the client's controls.)

I suggest that you get Bradley to audit a sample of sales transactions for compliance with these control procedures. The objectives of his work will be to (1) obtain control evidence about the validity, authorization, accuracy, and proper period recording of recorded sales, and (2) obtain control evidence about the accuracy and classification of sales postings to individual customer accounts receivable. If we don't find any problems, maybe we won't have to send out as many positive confirmations.

DW

Date: Mon, 21 JAN 2008 11:04:37 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: FW: Revenue Cycle Problems

Bradley sent me a copy of his test of controls work that he did on sales transactions. (Please tell him to send his work to you, rather than me.) Based on what Bradley found, there looks to be some serious problems in Sales and A/R. **You need to write a memo identifying and explaining the significance of the qualitative features indicated by these deviations.** Some things you may want to think about:

1. If the control performance were uniform for the year, the deviations would be evenly distributed by month.
2. Apollo Shoes faced financial problems in the fourth quarter of the year.
3. Sales transactions with missing bills of lading suggest improperly recorded sales.
4. December is the month when deviations overstating sales can have the most effect on the financial statements.
5. The company reports financial results each calendar quarter ending in March, June, September, and December.
6. Lack of credit approval for sales generally suggests the company might experience collection problems.
7. Errors in billing customers generally might be expected to be a mixture of overcharges and undercharges to the customers.
8. For customer overcharges, what was the average delay between the invoice date and the date a credit memo was entered giving the customer credit to correct the mistake?
9. Can you find any qualitative characteristics not signaled by these indicators?

Because of the problems noted, I don't think we can rely on Apollo's controls over revenue and accounts receivable. We will need to confirm most, if not all, of the accounts receivable balances. I suggest that you mail positive confirmations to those customers with accounts greater than \$1,000,000 and negative confirmations to those with balances less than \$1,000,000.

Also, I suggest that you ask Apollo's customers to verify total sales during the year. Normally, you wouldn't do this because it is difficult for the customers to confirm a year's worth of transactions. However, since there is a relatively small amount of sales transactions during the year, they should be able to confirm without a problem. I'll talk to you about it more later. I don't think you need to worry about customers with current zero balances.

**For now, just write the memo to be placed in the accounts receivable workpapers (C-series) about the problems that Bradley found and their affect on our audit procedures (more extensive testing, positive confirmations, etc.).**

DW

Date: Mon, 21 JAN 2008 10:32:16 +0000  
From: "Bradley Crumpler" <TheCrumpler@Aow.cpa>  
Subject: Test of Controls  
Attachment: <<Revenue Cycle Test of Controls.xls>>

Of the 120 sales transactions you asked me to look at, I found 51 "deviations." I have attached a list. These were the procedures that I used:

1. I randomly chose the sample of 120 transactions across the year with 10 from each calendar month.
2. I found all the invoices in the sample. None were missing.
3. All the invoices were properly posted to the general ledger sales and accounts receivable control accounts, and each was posted to the right customer's individual account.
4. The invoices not listed had no deviations related to other documents, recalculations, or comparisons.
5. "No credit approval" means that the expected credit approval notation could not be found in the documents.
6. When "Wrong quantity billed" appears, a description of the effect follows.
7. "CM (date)" means the customer notified Apollo of an error and a credit memo was issued on the subsequent date. All credit memos generate debits to a sales returns account and credits to accounts receivable.
8. "Paid in full on time" means the customer paid the invoice when it was due.
9. "Missing BL" means the bill of lading (shipping document) could not be found.
10. "Wrong price" means the clerks put the wrong unit price on the invoice and billed the customer incorrectly.
11. "Arithmetic error" means I found the invoice multiplied and added to show an incorrect total.
12. I found purchase orders from each customer except for the December shipment to Mall-Warts. Because there was no purchase order, I looked at the sales and shipping documents. The cost of the inventory shipped was \$3,169,145.10.

**Apollo Shoes, Inc.**  
**Revenue Cycle Test of Controls**  
**For Year Ended 12/31/2007**

**ICC-2**

<i>Prepared by</i>	BC
<i>Reviewed by</i>	

Deviation	Sample #	Invoice	Month	Day	Amount Customer	Deviation
1	21	39918	Sep.	23	\$35,029 Nuke Me	Wrong quantity. Overcharge \$250. CM Nov. 5.
2	37	39357	Aug.	28	\$11,326,574 Mall-Warts	No credit approval. Unpaid as of Dec. 31.
3	50	35669	Apr.	18	\$2,447,119 Mall-Warts	No credit approval. Paid in full on time.
4	51	41612	Dec.	10	\$2,165,501 Run For Your Life	No credit approval. Unpaid as of Dec. 31
5	52	42056	Dec.	28	\$730,588 Shoe Shack	Wrong quantity. Overcharge \$200. No CM. Unpaid.
6	61	40812	Nov.	3	\$3,051,755 Neutralizer	No credit approval. Unpaid as of Dec. 31.
7	66	39684	Sep.	13	\$139,246 Imelda's Closet	No credit approval. Paid in full on time.
8	67	33762	Feb.	21	\$1,478,296 Mall-Warts	No credit approval. Paid in full on time.
9	72	40004	Sep.	27	\$35,029 Nuke Me	Wrong quantity. Overcharge \$180. CM Nov. 4.
10	86	40256	Oct.	8	\$9,582 Wall of Shoes	No credit approval. Unpaid as of Dec. 31.
11	89	34233	Mar.	5	\$35,029 Nuke Me	No credit approval. Paid in full on time.
12	91	39640	Sep.	11	\$92,900 Pump It Up Shoes	Arithmetic error. Overcharge \$8,100. CM Nov. 1.
13	104	39036	Aug.	14	\$35,079 Nuke Me	Wrong price. Overcharge \$50. CM Sept. 12
14	109	41326	Nov.	27	\$45,258 Eight East	No credit approval. Unpaid as of Dec. 31.
15	112	39113	Aug.	17	\$524,239 Walkabout	Wrong price. Overcharge \$50. CM Sept. 1.
16	116	41754	Dec.	16	\$10,458,848 Paul Bunion	No credit approval. Unpaid as of Dec. 31.
17	121	33430	Feb.	11	\$2,492,336 Paul Bunion	Missing BL. Paid in full on time.
18	123	41774	Dec.	17	\$3,376 Pump It Up Shoes	No credit approval. Paid in full in Jan.
19	125	37526	June	14	\$35,029 Nuke Me	No credit approval. Paid in full on time.
20	132	42065	Dec.	29	\$2,649 Doug's	Arithmetic error. Overcharge \$15. CM Jan. 15.
21	133	33217	Feb.	4	\$35,029 Nuke Me	No credit approval. Paid in full on time.
22	137	40725	Oct.	30	\$146,446 Lockup Shoe Store	No credit approval. Paid in full on time.
23	143	39160	Aug.	19	\$110,002 Evil Spirt	Wrong price. Overcharge \$220. CM Sept. 30.
24	148	39130	Aug.	18	\$112,239 Wild Hair Shoes	Wrong price. Overcharge \$50. CM Sept. 20.
25	161	38488	July	19	\$4,333,275 Mall-Warts	No credit approval. Paid in full 60 days.
26	161	38488				Wrong price. Overcharge \$700. CM Aug. 5.
27	166	38816	Aug.	4	\$3,000 Blue Bird Shoes	Wrong price. Overcharge \$2,000. CM Sept. 10.
28	180	41898	Dec.	22	\$35,029 Nuke Me	No credit approval. Paid in full in Jan.
29	186	39163	Oct.	19	\$1,030,239 Tread	Wrong price. Overcharge \$1389. CM Dec. 4. (Neutralizer)
30	190	41341	Nov.	27	\$13,332 Blue Bird Shoes	No credit approval. Paid in full on time.
31	191	38669	July	27	\$62,300 Intl Soccer Federation	Wrong price. Overcharge \$100. CM Aug. 15.
32	193	35969	Apr.	24	\$22,450 Pump It Up Shoes	Missing BL. Paid in full on time.
33	225	39439	Aug.	31	\$65,392 Custom Shoes	No credit approval. Paid in full on time.
34	228	38191	July	6	\$357,246 Pump It Up Shoes	No credit approval. Paid in full on time.
35	228	38191				Wrong price. Overcharge \$100. CM Aug. 6.
36	232	36111	May	1	\$1,257,923 Mall-Warts	No credit approval. Paid in full on time.
37	234	39485	Sep.	4	\$35,069 Evil Spirt	No credit approval. Paid in full on time.
38	238	40425	Oct.	16	\$6,242 Blue Bird Shoes	No credit approval. Paid in full on time.
39	240	32270	Jan.	6	\$2,447,829 Mall-Warts	No credit approval. Paid in full on time.
40	242	37498	June	13	\$250,326 Sassy Shoes	No credit approval. Paid in full on time.
41	245	41306	Nov.	26	\$63,259 PayMore Shoes	No credit approval. Unpaid as of Dec. 31.
42	252	38582	July	23	\$5,249 Blue Bird Shoes	No credit approval. Paid in full on time.
43	259	39057	Aug.	14	\$4,792 Blue Bird Shoes	Missing BL. Paid in full on time.
44	265	39578	Sep.	8	\$63,259 Company B	No credit approval. Unpaid as of Dec. 31.
45	268	35100	Apr.	1	\$35,029 Nuke Me	No credit approval. Paid in full on time.
46	269	38773	Aug.	1	\$329,374 Trenchfoot	Wrong price. Overcharge \$35. CM Aug. 22.
47	280	38744	Aug.	1	\$750,000 Intl Soccer Federation	Wrong price. Overcharge \$25. CM. Aug. 10.
48	289	39436	Aug.	31	\$35,029 Nuke Me	No credit approval. Paid in full on time.
49	291	38740	Aug.	1	\$139,666 Sassy Shoes	Wrong price. Overcharge \$500. CM. Aug. 22
50	292	41976	Dec.	28	\$5,765,082 Mall-Warts	No credit approval. No purchase order. Unpaid as of Dec. 31.
51	296	40686	Oct.	28	\$5,765,082 Sassy Shoes	No credit approval. Unpaid as of Dec. 31.



Date: Sat, 19 JAN 2008 00:35:24 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Purchasing Cycle Bridge Working Paper

I am glad that you don't mind working on Saturdays. Welcome to "Busy Season!"

Similar to what you did with the Revenue Cycle, **I want you to prepare a bridge working paper for the audit of Apollo Shoes as of December 31, 2007, listing the major errors that could occur in the purchasing system and to describe the test of controls procedures for auditing related purchasing controls to determine whether reliable control exists.** I don't think that Apollo has enough purchase transactions that we need to rely on the controls (in other words, we'll look at them all), but we need to document our finding for our 404 work:

1. In the first column, use an index number (S-# or W-#) to indicate potential strength or weakness. *If you have time*, you may want to prepare a purchasing cycle flowchart. Not required, but could be helpful.
2. In the second column, describe the control activity (or lack thereof) that may serve to prevent, detect, or correct errors or frauds. Understand that Apollo may or may not have the control activity in place. If they do, we may test the control if that is cost-effective. If they don't, we can propose the control as a management letter comment.
3. In the third column, describe the audit implications of the strengths/weaknesses related to the control activities with respect to transactions or accounts reported in the financial statements (e.g., the presence of a properly completed purchase order check ensures that purchases are authorized).
4. In the fourth column, describe how specifically how (recalculation, reperformance, inquiry and observation, etc.) you would test the control.
5. Finally, add a fifth column for compensating audit procedures. If the control activity is not in place, or the control activity is in place but not effective, we need to determine what audit procedure (i.e., a compensating test) we could use to catch them. (For example, we can use customer confirmations to test the validity of the transactions if we can't rely on the client's controls.)

DW

Cash

Date: Mon, 21 JAN 2008 15:37:42 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Audit of Cash

We received the bank confirmation and bank cutoff statement this morning. I left it in your mailbox at work. I would prefer that you **audit cash** rather than Bradley (let him stick to vouching documents to keep him out of trouble). A couple of points:

1. Don't forget to trace from the cutoff bank statement to the outstanding check list to make sure that the listing is complete.
2. There was an adjustment made at the end of the year to other income that looks odd. If I remember correctly, there was a transaction in investments for the same amount. You may want to take a closer look.
3. The last check written in December was check number 3621. They use duplicate checks so I was able to look at the carbons when I was out at Apollo on Saturday.

Talk to you soon.

DW

# STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

Apollo Shoes, Inc  
CUSTOMER NAME

FINANCIAL INSTITUTION'S NAME AND ADDRESS

Twenty First National Bank  
Post Office Box 1  
Shoetown, ME 00002

We have provided to our accountants the following information as of the close of business on 12/31/2007, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below.\* Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*
General Cash Account	604-17-526-5	n/a	<b>3,284,192.03</b>
Payroll Account	604-29-016-3	n/a	
Savings Account	604-03-739-8	3.2%	0
			<b>3,670,599.15</b>

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL
Note#106316	10,000,000	1/1/2008	8.75%	11/30/2007	Inventory
Line of Credit, Acct#7500438	44,053,000	2008 (revolving)	9.75%	11/30/2007	Inventory

E.P Unum 1/9/2008  
 (Customer's Authorized Signature) (Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

I.M. Rich 1/14/2008  
 (Financial Institution Authorized Signature) (Date)

EXCEPTIONS AND OR COMMENTS  
*No exceptions noted.*

Please return this form directly to our accountants:

Andersen, Olds, and Watershed, LLP  
32nd Financial Avenue  
Shoetown, ME 00002

\* Ordinarily, balances are intentionally left blank if they are not available at the time this form is prepared.

Approved 1990 by American Bankers Association, American Institute of Certified Public Accounts, and Bank Administration Institute. Additional forms available from: AICPA - Order Department, P.O. Box 1003 NY, NY 10108-1003



"The Twenty  
First Bank  
for the  
Twenty First  
Century"

Account  
604-17-526-5

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Apollo Shoes, Inc.  
100 Shoe Plaza  
Shoetown, ME 00001

\*\*\* Your Checking Account

1-1-2008 THRU 1-18-2008 \*\*\*

Your Previous Balance		3,284,192.03
Additions	3 Deposits	29,597,022.90
	2 Transfers from other accounts	11,500,000.00
Deductions	55 Checks	12,181,004.11
	3 Transfers to other accounts	29,365,369.20
Your Current Balance		2,843,841.62

CYC	MC	FREQ
01	01	M0000

**Deposits and Other Additions**

<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
1/5/08	440,782.45	1/17/08	23,146,954.54
1/10/08	6,009,285.91		

**Checks and Other Withdrawals**

<u>Check</u>	<u>Date</u>	<u>Amount</u>	<u>Check</u>	<u>Date</u>	<u>Amount</u>
3586	1/5/08	8,533.12	3590	1/12/08	10,587.77
3587	1/5/08	4,741.30	3603	1/12/08	14,766.54
3582	1/5/08	480,375.80	3604	1/12/08	15,816.16
3591	1/6/08	7,566.07	3606	1/12/08	2,794.07
3598	1/6/08	16,472.00	3583	1/13/08	9,606.37
3597	1/9/08	15,746.44	3584	1/13/08	823.27
3599	1/9/08	12,610.96	3588	1/13/08	14,122.85
3602	1/9/08	6,394.61	3592	1/13/08	5,684.08
3615	1/9/08	12,904.00	3594	1/13/08	12,741.49
3612	1/9/08	4,194.79	3595	1/13/08	988.55
3593	1/11/08	18,421.90	3601	1/13/08	5,717.19
3610	1/11/08	5,929.87	3605	1/13/08	4,807.21
3617	1/11/08	1,073.73	3607	1/13/08	2,667,006.32
3619	1/11/08	7,841.27	3608	1/13/08	9,515.15
3585	1/11/08	7,960.15	3609	1/13/08	1,501.40
3589	1/11/08	6,707.05	3613	1/13/08	17,205.98



"The Twenty First Bank for the Twenty First Century"

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604-17-526-5

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**Checks and Other Withdrawals**

<u>Check</u>	<u>Date</u>	<u>Amount</u>	<u>Check</u>	<u>Date</u>	<u>Amount</u>
3621	1/13/08	11,137.19	3627	1/17/08	6,891.16
3596	1/16/08	10,014.94	3628	1/17/08	6,025.43
3600	1/16/08	200,000.00	3629	1/17/08	927.09
3611	1/16/08	1,266.85	3633	1/17/08	6,924.96
3616	1/16/08	9,338.02	3635	1/17/08	5,174.00
3614	1/16/08	14,366.46	3636	1/17/08	585.28
3618	1/16/08	13,377.14	3624	1/18/08	6,868.12
3620	1/16/08	2,566.30	3630	1/18/08	8,419.69
3622	1/17/08	6,683.93	3631	1/18/08	8,434,889.09
3623	1/17/08	2,937.13	3632	1/18/08	1,117.19
3625	1/17/08	124.81	3634	1/18/08	4,994.99
3626	1/17/08	15,216.88			

**Transfers to Other Accounts**

<u>Date</u>	<u>Amount</u>	<u>Account</u>
1/11/08	565,369.20	604-29-016-3
1/12/08	6,300,000.00	604-03-739-8
1/17/08	22,500,000.00	604-03-739-8

**Transfers from Other Accounts**

<u>Date</u>	<u>Amount</u>	<u>Account</u>
1/13/08	3,500,000.00	604-03-739-8
1/18/08	8,000,000.00	604-03-739-8

Date: Mon, 14 JAN 2008 13:02:47 +0000  
From: "Karina Ramirez" <Kramirez@ApolloShoes.com>  
Subject: PBC Schedules

We've completed the schedules that we agreed to prepare in our audit planning meeting. I've left them on your worktable in the conference room.

According to your instructions, we've marked them PBC for "Prepared by Client." I've attached copies to this e-mail as well as posted them to your firm's intranet site as you directed. Let us know if you have any questions.

I've also left some other documents that you requested last Friday, specifically copies of two bank deposit slips from early January that you requested for your accounts receivable work.

Karina

**Karina Ramirez**

Director, Internal Audit  
Apollo Shoes, Inc.

**Apollo Shoes, Inc.**  
**Cash Lead Schedule**  
**For Year Ended 12/31/2007**

**B-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Unaudited Balance 12/31/2007</b>
10100	Cash on Hand	\$1,987.28	\$2,275.23
10200	Regular Checking Account	\$198,116.52	\$532,125.92
10300	Payroll Checking Account	\$0.00	\$0.00
10400	Savings Account	\$3,044,958.13	\$3,670,599.15
		\$3,245,061.93	\$4,205,000.30
		\$3,245,061.93	\$4,205,000.30



Apollo Shoes  
Bank Reconciliation  
12/31/2007

**General Account**

Unadjusted book balance	51,750.12	
Bank Adjustments	0.00	
Amount to Balance	480,375.80	* Adjustment to balance posted to
Adjusted book balance	<b>532,125.92</b>	<i>Cash and Controller's Clearing Account</i>
Balance per bank statement	3,284,192.03	
Add Deposits in transit	440,782.45	
Deduct O/S Checks	-3,192,848.56	
Adjustment to Balance		
Adjusted bank balance	<b>532,125.92</b>	

**Payroll Account**

Unadjusted book balance	0.00
Bank adjustments	0.00
Adjusted book balance	<b>0.00</b>
Balance per bank statement	0.00
Add Deposits in transit	598,341.59
Deduct O/S Checks	-598,341.59
Adjusted bank balance	<b>0.00</b>

**Apollo Shoes, Inc**  
**Outstanding Checks**  
**December 31, 2007**

**PBC**

<u>Check #</u>	<u>Date Written</u>	<u>Amount</u>
3583	12/30/07	9,606.37
3584	12/30/07	823.27
3585	12/30/07	7,960.15
3586	12/30/07	8,533.12
3587	12/30/07	4,741.30
3588	12/30/07	14,122.85
3589	12/30/07	6,707.05
3590	12/30/07	10,587.77
3591	12/30/07	7,566.07
3592	12/30/07	5,684.08
3593	12/30/07	18,421.90
3594	12/30/07	12,741.49
3595	12/30/07	988.55
3596	12/30/07	10,014.94
3597	12/30/07	15,746.44
3598	12/30/07	16,472.00
3599	12/30/07	12,610.96
3600	12/30/07	200,000.00
3601	12/30/07	5,717.19
3602	12/30/07	6,394.61
3603	12/30/07	14,766.54
3604	12/30/07	15,816.16
3605	12/30/07	4,807.21
3606	12/30/07	2,794.07
3607	12/30/07	2,667,006.32
3608	12/30/07	9,515.15
3609	12/30/07	1,501.40
3610	12/30/07	5,929.87
3611	12/30/07	1,266.85
3612	12/30/07	4,194.79
3613	12/30/07	17,205.98
3614	12/30/07	14,366.46
3615	12/30/07	12,904.00
3616	12/30/07	9,338.02
3617	12/30/07	1,073.73
3618	12/30/07	13,377.14
3619	12/30/07	7,841.27
3620	12/30/07	2,566.30
3621	12/30/07	11,137.19
<b>Total</b>		<b><u>3,192,848.56</u></b>

---

**Apollo Shoes, Inc**  
**Bank Deposit Slip**  
**Twenty First National Bank, Account #604-17-526-5**

**January 10, 2008**

<b>Customer Name</b>	<b>Check Number</b>	<b>Check Amount</b>
Pay More Shoes	16625	\$526,004.85
Nuke Me	16949	\$35,028.59
Shoe Shack	17309	\$730,588.25
Trenchfoot	18544	\$85,534.25
Imelda's Closet	11618	\$96,452.11
Eight East	18369	\$45,258.22
Feet Lamour	15299	\$385,241.02
Neutralizer	18608	\$3,053,144.23
Bad Boy Shoes	12818	\$400,253.31
Wild Hair Shoes	12085	\$252,769.26
Big Bob's Shoe Store	14819	\$399,011.82
<i>Total Deposit</i>		\$6,009,285.91

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**Apollo Shoes, Inc**  
**Bank Deposit Slip**  
**Twenty First National Bank, Account #604-17-526-5**

**January 17, 2008**

<b>Customer Name</b>	<b>Check Number</b>	<b>Check Amount</b>
Run For Your Life Shoes	13289	\$2,165,500.55
Hip Hop Shoes	14675	\$695,542.21
International Soccer Federation	10531	\$1,222,359.56
Walk About	13695	\$932,653.33
Doug's Shoes	17097	\$2,648.75
Custom Shoes	14659	\$5,996.13
Blue Bird Shoes	11500	\$11,844.63
Pump It Up Shoes	11186	\$3,375.54
Hop Scotch Shoes	15820	\$895,606.23
Sassy Shoes	19785	\$5,765,081.85
Evil Spirit Shoes	15759	\$86,450.60
Action Foot Shoes	10716	\$793,544.22
Paul Bunion Footware	19851	\$10,458,847.58
Shack's Shoe Shine	523	\$3,000.00
Lock-Up Shoe Store	16514	\$104,503.36
<i>Total Deposit</i>		\$23,146,954.54

# Accounts Receivable

Date: Mon, 28 JAN 2008 15:37:42 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Audit of Accounts Receivable

We received a number of account receivable (and one pre-paid insurance) confirmations that I put on your desk when I stopped by to talk to Samuel Carboy this morning. **With the good response rate on the positive confirmations, you can probably start working on A/R now.**

While I think of it, you need to **prepare a memo (C-2-1)** addressing the following issues:

1. Describe the two forms of accounts receivable confirmation requests that you used and indicate the factors that you considered in determining which type to use.
2. What "alternative procedures" are you going to use to verify the existence of these accounts and the gross value of the receivables if the customers who receive positive confirmations never reply, even to a second request?

**Put the confirmations in the workpapers (C-2-2, C-2-3, C-2-4, etc.). Address any discrepancies between the client and the customer and propose adjustments as necessary.**

**It would also be helpful to indicate the payments received by Apollo on the Aged Trial Balance Schedule (C-2). You can get these off of any early January deposits slips. If you get copies from the client, be sure to tie the totals into deposits indicated on the cutoff bank statement received directly from the bank.**

Lastly, the allowance for doubtful accounts looks pretty low. A/R goes up, but the allowance goes down? **I need a separate workpaper (C-3) addressing the reasonableness of Apollo's Allowance for Doubtful Accounts.** You can specifically identify troubled accounts, look at subsequent cash collections, look at what Apollo's competitors do, look at what Apollo has done in the past (bad debt expense as a % of sales, allowance for doubtful accounts as a % of total receivables) to develop your estimate of what should be in the allowance. Also consider current and previous A/R Turnover and Days' Sales in A/R ratios.

DW

**Apollo Shoes, Inc.**  
**Accounts Receivable Lead Schedule**  
**For Year Ended 12/31/2007**

**C-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

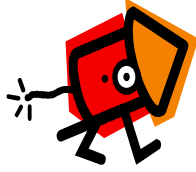
<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Additions</b>	<b>Credits/ Receipts/ Writeoffs</b>	<b>Unaudited Balance 12/31/2007</b>
11000	Accounts Receivable	\$16,410,902.71	\$231,613,231.99	\$198,243,874.72	\$49,780,259.98
11100	Advances to Employees	\$0.00	\$0.00	\$0.00	\$0.00
11400	Other Receivables	\$0.00	\$1,000,000.00	\$0.00	\$1,000,000.00
11500	Allowance for Doubtful Accounts	(\$1,262,819.88)	\$0.00	\$8,810.13	(\$1,254,009.75)
		<hr/>			
		\$15,148,082.83	\$232,613,231.99	\$198,235,064.59	\$49,526,250.23

**Apollo Shoes, Inc.**  
**Accounts Receivable Aged Trial Balance**  
**For Year Ended 12/31/2007**

**C-2**

<i>Prepared by</i>	
<i>Reviewed by</i>	

	2007		Conf Type	Date Mailed	Date Received	Current <30 Days	30-60 Days	Past Due			2008 Payments
	Net Sales	Total Balance						60-90 Days	>90 Days	Received	
Pay More Shoes	\$586,779.54	\$526,004.85					\$526,004.85				
Nuke Me	\$1,847,819.03	\$35,028.59				\$35,028.59					
Run For Your Life Shoes	\$2,165,500.55	\$2,165,500.55				\$2,165,500.55					
Shoe Shack	\$3,013,152.09	\$730,588.25				\$730,588.25					
Tread	\$3,091,017.74	\$1,388.75						\$1,388.75			
Mall-Wart	\$122,826,158.60	\$20,549,225.88				\$5,765,081.85				\$14,784,144.03	
Wall of Shoes	\$3,315,585.60	\$9,582.25						\$9,582.25			
Trenchfoot	\$3,325,046.93	\$85,534.25					\$85,534.25				
Shack's Shoe Shine	\$3,017,205.21	\$4,952.77					\$4,952.77				
Imelda's Closet	\$2,942,005.95	\$96,452.11				\$96,452.11					
Hip Hop Shoes	\$695,542.21	\$695,542.21				\$695,542.21					
International Soccer Federation	\$3,228,779.92	\$1,222,359.56				\$1,222,359.56					
Eight East	\$3,173,304.14	\$45,258.22					\$45,258.22				
Company B	\$1,063,564.85	\$63,258.65								\$63,258.65	
Feet Lamour	\$1,151,561.90	\$385,241.02						\$385,241.02			
Walk About	\$3,015,119.00	\$932,653.33				\$932,653.33					
Neutralizer	\$3,051,755.48	\$3,051,755.48				(\$1,388.75)	\$3,053,144.23				
Doug's Shoes	\$3,211,903.23	\$2,648.75				\$2,648.75					
Custom Shoes	\$575,619.27	\$5,996.13				\$5,996.13					
Blue Bird Shoes	\$271,531.15	\$11,844.63				\$11,844.63					
Bad Boy Shoes	\$435,286.26	\$400,253.31					\$400,253.31				
Pump It Up Shoes	\$497,899.04	\$3,375.54				\$3,375.54					
Hop Scotch Shoes	\$2,779,399.08	\$895,606.23				\$895,606.23					
Sassy Shoes	\$15,178,041.85	\$5,765,081.85						\$5,765,081.85			
Wild Hair Shoes	\$454,774.74	\$252,769.24						\$252,769.24			
Evil Spirit Shoes	\$2,109,522.15	\$86,450.60				\$86,450.60					
Action Foot Shoes	\$1,812,668.55	\$793,544.22					\$793,544.22				
Big Bob's Shoe Store	\$3,105,982.56	\$399,011.82						\$399,011.82			
Paul Bunion Footware	\$29,270,632.63	\$10,458,847.58				\$10,458,847.58					
Lock-Up Shoe Store	\$1,499,730.29	\$104,503.36				\$104,503.36					
Other Customers	\$8,900,342.45	\$0.00									
<b>Total</b>	<b>\$231,613,231.99</b>	<b>\$49,780,259.98</b>				<b>\$23,211,090.52</b>	<b>\$4,908,691.85</b>	<b>\$6,813,074.93</b>	<b>\$14,847,402.68</b>		



**Apollo Shoes, Inc.**  
Shoetown, ME

Neutralizer  
1359 Central Boulevard  
Derma, MS 39530  
Attn: Accounts Payable Dept.

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

The balance due Apollo Shoes as of December 31, 2007, is  
\$3,051,755.48  
Purchases from Apollo Shoes during the year 2007 totaled  
\$3,051,755.48

This balance is correct except as noted below:

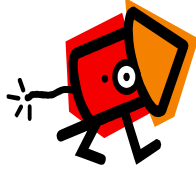
*Our records indicate that we owe \$1388.75 more than indicated above. We wrote a check to Apollo on 12/28 for \$3,053,144.23 for 10 pallets of shoes.*

Date: 1/24/08

By: Rudy Robinson

Title: Accounts Payable





**Apollo Shoes, Inc.**  
Shoetown, ME

Mall-Warts  
146 Boardwalk Drive  
Atlantic City, NJ 08401  
Attn: Accounts Payable Dept.

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

The balance due Apollo Shoes as of December 31, 2007, is  
\$20,549,225.88  
Purchases from Apollo Shoes during the year 2007 totaled  
\$122,826,158.60

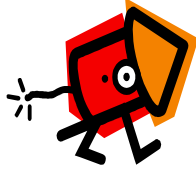
These amounts are correct except as noted below:

*The amounts appear right, but we entered into involuntary bankruptcy on November 3. We told Apollo about this back at that time. We don't know why they shipped us so many pairs in late December (including over 1600 pairs of size 23's that we can't even give away!!) We didn't order them and we can't afford to send them back!*

Date: 1/18/08

By: Action Jackson

Title: Liquidation Coordinator



**Apollo Shoes, Inc.**  
Shoetown, ME

Run for Your Life Shoes  
Attn: Accounts Payable Dept.  
5110 Speedway Drive  
Los Angeles, CA 90035

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

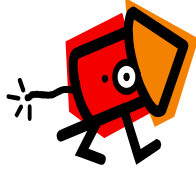
The balance due Apollo Shoes as of December 31, 2007, is  
\$2,165,500.55  
Purchases from Apollo Shoes during the year 2007 totaled  
\$2,165,500.55

This balance is correct except as noted below:

*Yes, we made one purchase from Apollo during the year, but we paid the entire amount on 1/8.*

Date: 1/18/08 By: Justin Thompson

Title: Accounts Payable Coordinator



**Apollo Shoes, Inc.**  
Shoetown, ME

Tread  
Attn: Accounts Payable Dept.  
Highway 67  
French Lick, IN 47432

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND COMPARE THEM TO YOUR RECORDS OF YOUR ACCOUNT WITH US. IF THE INFORMATION IS NOT IN AGREEMENT WITH YOUR RECORDS, PLEASE STATE ANY DIFFERENCES BELOW AND RETURN DIRECTLY TO OUR AUDITORS IN THE RETURN ENVELOPE PROVIDED. **IF THE INFORMATION IS CORRECT, NO REPLY IS NECESSARY.**

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

The balance due Apollo Shoes as of December 31, 2007, is  
\$1,388.75  
Purchases from Apollo Shoes during the year 2007 totaled  
\$3,091,017.74

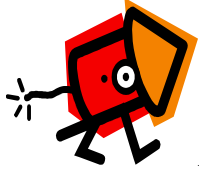
This balance is correct except as noted below:

*We were told in November that our account had already been credited for the amount listed above for a return of 5 pairs of defective shoes. Total purchases agree with our records though.*

Date: 1/18/08

By: Shoeless Joe Johanson

Title: President, Tread Shoes



**Apollo Shoes, Inc.**  
Shoetown, ME

Paul Bunion Footwear  
Attn: Accounts Payable Dept.  
Lone Mountain Trail  
P.O. Box 10558  
Big Sky, MT 59717

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

Samuel Carboy, Controller

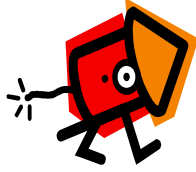
The balance due Apollo Shoes as of December 31, 2007, is  
\$10,458,847.58  
Purchases from Apollo Shoes during the year 2007 totaled  
\$29,270,632.63

This balance is correct except as noted below:  
*No problems noted.*

Date: 1/25/08

By: Kevin Bunion

Title: VP-Finance, PBS



**Apollo Shoes, Inc.**  
Shoetown, ME

Sassy Shoes  
Attn: Accounts Payable Dept.  
440 W. 53<sup>rd</sup> Street  
New York, NY 10018

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

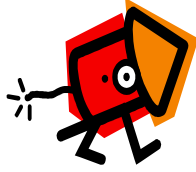
The balance due Apollo Shoes as of December 31, 2007, is  
\$5,765,081.85  
Purchases from Apollo Shoes during the year 2007 totaled  
\$15,178,041.85

This balance is correct except as noted below:

*Yes, we owed it. This is the third letter that we've received from you people!!! Our sales are just running a little slowly this year, but we paid on the tenth, so quit hassling us!*

Date: 1/26/08 By: Sassy Spinelli

Title: Founder, Sassy Shoes



**Apollo Shoes, Inc.**  
Shoetown, ME

International Soccer Federation  
Attn: Accounts Payable Dept.  
Birmingham Road  
Stratford-upon-Avon  
Warwickshire CV34 6LT  
England

Our auditors, Anderson, Olds, and Watershed, are making their regular audit of our financial statements. Part of this audit includes direct verification of customer balances.

PLEASE EXAMINE THE DATA BELOW CAREFULLY AND EITHER CONFIRM ITS ACCURACY OR REPORT ANY DIFFERENCES DIRECTLY TO OUR AUDITORS USING THE ENCLOSED REPLY ENVELOPE.

This is not a request for payment. Please do not send your remittance to our auditors.

Your prompt attention to this request will be appreciated.

*Samuel Carboy*

\_\_\_\_\_  
Samuel Carboy, Controller

The balance due Apollo Shoes as of December 31, 2007, is  
\$1,222,359.56  
Purchases from Apollo Shoes during the year 2007 totaled  
\$3,228,779.92

This balance is correct except as noted below:

*The amounts are correct as stated. I don't think we are going to buy any more though. The sirens keep going off prematurely and it's causing our fans to riot.*

Date: 1/25/08

By: Foots McKinney

Title: Equipment Manager, ISF

# Inventory

Date: Wed, 6 FEB 2008 10:24:53 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Inventory

For inventory, I've attached an inventory memo that I received from Bradley. I thought he sent you a copy already, but I don't doubt that he didn't.

I don't think he knows what an inventory observation memo is – **you'll have to write the memo** based upon Bradley's observation notes and what you observed when you were there on December 31. In addition to writing an inventory observation memo, you will need to **tie in Bradley's test counts** on the client's count sheets to Apollo's Inventory Warehouse Report. Finally, **tie the Inventory Warehouse Report to Apollo's Inventory Status Report supplied by Karina last week.**

**Next, judgmentally sample a number of unit costs from recent invoices and tie them to the Inventory Status Report. If the numbers agree, tie the Inventory Status Report into the Inventory Lead Schedule. Lastly, tie the lead schedule into the Trial Balance.**

Be careful to determine the proper accounts for adjustment when inventory is included or excluded from the physical count. By "included," I mean that the inventory cost should already be in the general ledger balance shown in the trial balance. When the inventory is adjusted to match the physical count, the adjustment is to cost of goods sold.

The Reserve for Inventory Obsolescence decreased significantly from last year. My conversation with Samuel Carboy indicated that they received a huge number of odd-sized shoes from their principal supplier last year against which the previous auditors made them set up a reserve. He indicated that, with the exception of the odd-sized shoes, Apollo generally turns over its entire inventory several times a year. As the quantity of odd sizes gradually decreases, the reserve has been decreased by reducing the reserve and Cost of Goods Sold.



Date: Mon, 31 DEC 2007 4:43:52 +0000  
To: "Darlene Wardlaw" <dw@aow.cpa>  
From: "Bradley Crumpler" <TheCrumpler@Aow.cpa>  
Subject: Apollo Shoes Inventory Observation

While the "in-charge" was drinking coffee and scarfing down doughnuts with Karina, I was out in the warehouse counting! This is what I observed:

- I saw the Apollo manager (Andrew Jacobs) giving instructions to the count teams. (I've attached a copy to put in the workpapers.)
- Shoe boxes were stacked in pallets. Each pallet was six boxes wide by six boxes deep and stacked 30 boxes high (6X6X30=1080 boxes/pallet). Each pallet included all the same sizes of men's, women's and children's shoes. According to the in-charge's instructions, I had them open up a number of boxes throughout the warehouse to make sure that shoes were in each of them. Boy, were they upset about that!
- Apollo personnel counted all inventory, including a shipment of shoes costing \$8,434,889.09 that was received on December 31. The invoice shows the shipment was made from the Anglonesia Rehabilitation and Reprogramming Institute on December 26, "FOB Destination." I attached a copy of the purchase invoice as well as the ones from the previous two purchases. These were the only shipments received in the last several months. I observed a count tag on every pallet.
- There were a total of 98 count sheets. I recounted all the items on seven count sheets (attached). There were no differences between my test counts and those counted by the client. For some reason, the in-charge didn't want me to let the Apollo people know what I was recounting!
- I found some pallets of shoes stacked near the back of the warehouse (furthest from the shipping dock). They were covered with dust and looked very old. They were men's size 23. When I asked the inventory foreman about them and whether they had any value, he just started laughing. He said that's why the "reserve for inventory obesity" was so high. He said that they shipped out "a boatload of them (size 23's) last week."
- I also spent 4 hours watching them count the supply closet. All the pencils were accounted for.

I'm going home.

Apollo Shoes  
Inventory Count Instructions

1. Counts will be performed in teams of two, consisting of a counter and a writer.
2. For each bin, identify the item located in it and the count of that item. If more than one item is in the bin, write in the bin number, the additional item description, and the count in the open space at the bottom of your count sheet.
3. After counting a bin, place an inventory count tag on the bin to mark it as having been counted.
4. After a team finishes its counts, each count team member should write his/her name in the "Count Team" line on each count sheet and the team should then turn in the sheets to the inventory manager.
5. After receiving the count sheets(s), the inventory manager will review and sign them, and then submit them to the inventory clerk for processing.
6. The inventory clerk will enter the counts into the computer system, run a variance report, and submit the variance report to the inventory manager.
7. The inventory manager will assign recounts for variances to the count teams. Each team will then recount the assigned bins and initial beside the recount on the count sheet.
8. The recounts will be resubmitted to the inventory manager, who will review and sign them, and then submit them to the inventory clerk for final entry.
9. There will be NO sales and NO movement of inventory during the count.





**APOLLO SHOES, INC.  
INVENTORY COUNT SHEET**

**December 31, 2007**

**SHEET NO. 37**

**COUNT TEAM** S. Adams, H. Frey

**ENTERED BY** E. Meadows

**REVIEWED BY** A. Jacobs

Pallet Location	Sku#	Style	Type	Size	Quantity Counted
B25	20040	Speaker	Men's	7.5	1080
B26	20040	Speaker	Men's	7.5	1080
B27	20040	Speaker	Men's	7.5	1080
B28	20040	Speaker	Men's	7.5	1080
B29	20040	Speaker	Men's	7.5	1080
B30	20040	Speaker	Men's	7.5	1080
B31	20040	Speaker	Men's	7.5	1080
B32	20040	Speaker	Men's	7.5	1080
B33	20040	Speaker	Men's	7.5	1080
B34	20040	Speaker	Men's	7.5	1080
B35	20040	Speaker	Men's	7.5	1080
B36	20040	Speaker	Men's	7.5	1080
B37	20040	Speaker	Men's	7.5	1080
B38	20040	Speaker	Men's	7.5	217

**APOLLO SHOES, INC.  
INVENTORY COUNT SHEET**

**December 31, 2007**

**SHEET NO. 56**

**COUNT TEAM** K. Landry, L. Robertson

**ENTERED BY** N. Johnston

**REVIEWED BY** A. Jacobs

<b>Pallet Location</b>	<b>Sku#</b>	<b>Style</b>	<b>Type</b>	<b>Size</b>	<b>Quantity Counted</b>
B213	20220	Speaker	Women's	8	1080
B214	20220	Speaker	Women's	8	1080
B215	20220	Speaker	Women's	8	1080
B216	20220	Speaker	Women's	8	1080
B217	20220	Speaker	Women's	8	1080
B218	20220	Speaker	Women's	8	1080
B219	20220	Speaker	Women's	8	1080
B220	20220	Speaker	Women's	8	1080
B221	20220	Speaker	Women's	8	1080
B222	20220	Speaker	Women's	8	1080
B223	20220	Speaker	Women's	8	1080
B224	20220	Speaker	Women's	8	1080
B225	20220	Speaker	Women's	8	1080
B226	20220	Speaker	Women's	8	586









**Apollo Shoes, Inc.**  
**Inventory Lead Schedule**  
**For Year Ended 12/31/2007**

**D-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Purchases/ Additions</b>	<b>Cost of Goods Sold</b>	<b>Unaudited Balance 12/31/2007</b>
12000	Inventory	\$18,825,205.24	\$178,845,967.52	\$130,246,645.26	\$67,424,527.50
12300	Reserve for Inventory Obsolescence	(\$3,012,000.00)	\$0.00	(\$2,145,000.00)	(\$867,000.00)
		\$15,813,205.24	\$178,845,967.52	\$128,101,645.26	\$66,557,527.50

**Apollo Shoes, Inc**  
**Inventory Status Report**  
**Post Physical Inventory Count**  
**December 31, 2007**

<u>Sku#</u>	<u>Style</u>	<u>Type</u>	<u>Inventory, 12/31/2006</u>			<u>Inventory, 12/31/2007</u>			
			<u>Size</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>
10010	Siren	Men's	7	507	138.08	70,006.56	4,002	139.76	559,319.52
10020	Siren	Men's	7 1/2	544	138.08	75,115.52	4,572	139.76	638,982.72
10030	Siren	Men's	8	660	138.08	91,132.80	4,130	139.76	577,208.80
10040	Siren	Men's	8 1/2	718	138.08	99,141.44	4,079	139.76	570,081.04
10050	Siren	Men's	9	529	138.08	73,044.32	4,337	139.76	606,139.12
10060	Siren	Men's	9 1/2	1,007	138.08	139,046.56	4,640	139.76	648,486.40
10070	Siren	Men's	10	997	138.08	137,665.76	4,840	139.76	676,438.40
10080	Siren	Men's	10 1/2	912	138.08	125,928.96	4,585	139.76	640,799.60
10090	Siren	Men's	11	539	138.08	74,425.12	3,644	139.76	509,285.44
10100	Siren	Men's	11 1/2	756	138.08	104,388.48	1,774	139.76	247,934.24
10110	Siren	Men's	12	509	138.08	70,282.72	3,632	139.76	507,608.32
10120	Siren	Men's	12 1/2	581	138.08	80,224.48	2,420	139.76	338,219.20
10130	Siren	Men's	13	631	138.08	87,128.48	1,424	139.76	199,018.24
10140	Siren	Men's	13 1/2	423	138.08	58,407.84	746	139.76	104,260.96
10150	Siren	Men's	14	324	138.08	44,737.92	408	139.76	57,022.08
10160	Siren	Men's	14 1/2	496	138.08	68,487.68	352	139.76	49,195.52
10170	Siren	Women's	5	538	138.08	74,287.04	1,827	139.76	255,341.52
10180	Siren	Women's	5 1/2	849	138.08	117,229.92	2,581	139.76	360,720.56
10190	Siren	Women's	6	995	138.08	137,389.60	4,129	139.76	577,069.04
10200	Siren	Women's	6 1/2	614	138.08	84,781.12	5,000	139.76	698,800.00
10210	Siren	Women's	7	768	138.08	106,045.44	5,781	139.76	807,952.56
10220	Siren	Women's	7 1/2	980	138.08	135,318.40	3,491	139.76	487,902.16
10230	Siren	Women's	8	926	138.08	127,862.08	4,756	139.76	664,698.56
10240	Siren	Women's	8 1/2	820	138.08	113,225.60	2,650	139.76	370,364.00
10250	Siren	Women's	9	936	138.08	129,242.88	4,573	139.76	639,122.48
10260	Siren	Women's	9 1/2	839	138.08	115,849.12	2,673	139.76	373,578.48
10270	Siren	Women's	10	649	138.08	89,613.92	2,072	139.76	289,582.72
10280	Siren	Women's	10 1/2	510	138.08	70,420.80	1,715	139.76	239,688.40
10290	Siren	Women's	11	631	138.08	87,128.48	740	139.76	103,422.40
10300	Siren	Women's	11 1/2	513	138.08	70,835.04	658	139.76	91,962.08
10310	Siren	Women's	12	701	138.08	96,794.08	609	139.76	85,113.84
10320	Siren	Women's	12 1/2	737	138.08	101,764.96	823	139.76	115,022.48
10330	Siren	Women's	13	301	138.08	41,562.08	968	139.76	135,287.68
				22,440		3,098,515.20	94,631		13,225,628.56

<u>Sku#</u>	<u>Style</u>	<u>Type</u>	<u>Inventory, 12/31/2006</u>			<u>Inventory, 12/31/2007</u>			
			<u>Size</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>
20010	Speaker	Men's	6	498	230.07	114,574.86	7,123	116.71	831,325.33
20020	Speaker	Men's	6 1/2	920	230.07	211,664.40	8,351	116.71	974,645.21
20030	Speaker	Men's	7	1,019	230.07	234,441.33	9,170	116.71	1,070,230.70
20040	Speaker	Men's	7 1/2	1,663	230.07	382,606.41	14,257	116.71	1,663,934.47
20050	Speaker	Men's	8	1,302	230.07	299,551.14	11,540	116.71	1,346,833.40
20060	Speaker	Men's	8 1/2	1,580	230.07	363,510.60	15,273	116.71	1,782,511.83
20070	Speaker	Men's	9	1,778	230.07	409,064.46	15,425	116.71	1,800,251.75
20080	Speaker	Men's	9 1/2	2,146	230.07	493,730.22	10,232	116.71	1,194,176.72
20090	Speaker	Men's	10	2,248	230.07	517,197.36	14,260	116.71	1,664,284.60
20100	Speaker	Men's	10 1/2	1,982	230.07	455,998.74	13,012	116.71	1,518,630.52
20110	Speaker	Men's	11	1,720	230.07	395,720.40	9,170	116.71	1,070,230.70
20120	Speaker	Men's	11 1/2	1,131	230.07	260,209.17	3,162	116.71	369,037.02
20130	Speaker	Men's	12	1,267	230.07	291,498.69	2,239	116.71	261,313.69
20140	Speaker	Men's	12 1/2	1,055	230.07	242,723.85	2,764	116.71	322,586.44
20150	Speaker	Men's	13	673	230.07	154,837.11	1,360	116.71	158,725.60
20160	Speaker	Women's	5	736	230.07	169,331.52	11,975	116.71	1,397,602.25
20170	Speaker	Women's	5 1/2	1,137	230.07	261,589.59	13,569	116.71	1,583,637.99
20180	Speaker	Women's	6	1,399	230.07	321,867.93	12,116	116.71	1,414,058.36
20190	Speaker	Women's	6 1/2	1,548	230.07	356,148.36	12,890	116.71	1,504,391.90
20200	Speaker	Women's	7	1,858	230.07	427,470.06	13,620	116.71	1,589,590.20
20210	Speaker	Women's	7 1/2	1,527	230.07	351,316.89	14,905	116.71	1,739,562.55
20220	Speaker	Women's	8	2,037	230.07	468,652.59	14,626	116.71	1,707,000.46
20230	Speaker	Women's	8 1/2	2,248	230.07	517,197.36	14,116	116.71	1,647,478.36
20240	Speaker	Women's	9	1,507	230.07	346,715.49	14,413	116.71	1,682,141.23
20250	Speaker	Women's	9 1/2	1,757	230.07	404,232.99	12,083	116.71	1,410,206.93
20260	Speaker	Women's	10	1,420	230.07	326,699.40	8,378	116.71	977,796.38
20270	Speaker	Women's	10 1/2	1,041	230.07	239,502.87	3,256	116.71	380,007.76
20280	Speaker	Women's	11	1,282	230.07	294,949.74	2,260	116.71	263,764.60
20290	Speaker	Women's	11 1/2	1,120	230.07	257,678.40	1,051	116.71	122,662.21
				41,599		9,570,681.93	286,596		33,448,619.16

<u>Sku#</u>	<u>Style</u>	<u>Type</u>	<u>Inventory, 12/31/2006</u>			<u>Inventory, 12/31/2007</u>			
			<u>Size</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Ext Price</u>
30010	Spotlight	Men's	6	898	203.50	182,743.00	3,276	205.27	672,464.52
30020	Spotlight	Men's	6 1/2	752	203.50	153,032.00	2,346	205.27	481,563.42
30030	Spotlight	Men's	7	1,046	203.50	212,861.00	2,518	205.27	516,869.86
30040	Spotlight	Men's	7 1/2	776	203.50	157,916.00	3,147	205.27	645,984.69
30050	Spotlight	Men's	8	624	203.50	126,984.00	3,107	205.27	637,773.89
30060	Spotlight	Men's	8 1/2	864	203.50	175,824.00	2,560	205.27	525,491.20
30070	Spotlight	Men's	9	980	203.50	199,430.00	3,361	205.27	689,912.47
30080	Spotlight	Men's	9 1/2	774	203.50	157,509.00	3,187	205.27	654,195.49
30090	Spotlight	Men's	10	710	203.50	144,485.00	2,641	205.27	542,118.07
30100	Spotlight	Men's	10 1/2	1,310	203.50	266,585.00	2,633	205.27	540,475.91
30110	Spotlight	Men's	11	1,244	203.50	253,154.00	2,161	205.27	443,588.47
30120	Spotlight	Men's	11 1/2	808	203.50	164,428.00	2,304	205.27	472,942.08
30130	Spotlight	Men's	12	442	203.50	89,947.00	1,518	205.27	311,599.86
30140	Spotlight	Men's	12 1/2	170	203.50	34,595.00	565	205.27	115,977.55
30150	Spotlight	Men's	13	268	203.50	54,538.00	939	205.27	192,748.53
30160	Spotlight	Men's	14	394	203.50	80,179.00	1,270	205.27	260,692.90
30170	Spotlight	Men's	15	354	203.50	72,039.00	1,320	205.27	270,956.40
30180	Spotlight	Men's	23	3,854	197.16	759,854.64	2,234	197.16	440,455.44
30190	Spotlight	Women's	5	520	203.50	105,820.00	1,884	205.27	386,728.68
30200	Spotlight	Women's	5 1/2	518	203.50	105,413.00	3,760	205.27	771,815.20
30210	Spotlight	Women's	6	722	203.50	146,927.00	4,096	205.27	840,785.92
30220	Spotlight	Women's	6 1/2	842	203.50	171,347.00	4,582	205.27	940,547.14
30230	Spotlight	Women's	7	666	203.50	135,531.00	3,531	205.27	724,808.37
30240	Spotlight	Women's	7 1/2	1,394	203.50	283,679.00	4,901	205.27	1,006,028.27
30250	Spotlight	Women's	8	1,024	203.50	208,384.00	3,779	205.27	775,715.33
30260	Spotlight	Women's	8 1/2	924	203.50	188,034.00	4,489	205.27	921,457.03
30270	Spotlight	Women's	9	1,028	203.50	209,198.00	4,316	205.27	885,945.32
30280	Spotlight	Women's	9 1/2	1,290	203.50	262,515.00	4,134	205.27	848,586.18
30290	Spotlight	Women's	10	1,188	203.50	241,758.00	3,762	205.27	772,225.74
30300	Spotlight	Women's	10 1/2	652	203.50	132,682.00	2,071	205.27	425,114.17
30310	Spotlight	Women's	11	928	203.50	188,848.00	3,127	205.27	641,879.29
30320	Spotlight	Women's	11 1/2	986	203.50	200,651.00	3,079	205.27	632,026.33
30330	Spotlight	Women's	12	542	203.50	110,297.00	3,330	205.27	683,549.10
30340	Spotlight	Women's	12 1/2	472	203.50	96,052.00	3,185	205.27	653,784.95
30350	Spotlight	Women's	13	408	203.50	83,028.00	2,063	205.27	423,472.01
				30,372		6,156,267.64	101,176		20,750,279.78

**INVOICE**

Page 1 of 2

**No 1004345**

**Anglonesia Rehabilitation and Reprogramming Institute**  
**31XPZ Chancellor Anglonesia, GH327MQ**

**Date** 8/13/2007  
**VIA:** Cargo, Freight paid by Shipper  
**Terms:** 2/10, net 30, FOB Destination

**Bill To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

**Ship To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

<b>Item #</b>	<b>Description</b>	<b>Quantity</b>	<b>Unit Price</b>	<b>Total</b>
MS1001GX	Men's Siren Size 7	2034	139.76	284,271.84
MS1002GX	Men's Siren Size 7.5	2571	139.76	359,322.96
MS1003GX	Men's Siren Size 8	2446	139.76	341,852.96
MS1004GX	Men's Siren Size 8.5	4,289	139.76	599,430.64
MS1005GX	Men's Siren Size 9	4908	139.76	685,942.08
MS1006GX	Men's Siren Size 9.5	4,881	139.76	682,168.56
MS1007GX	Men's Siren Size 10	5104	139.76	713,335.04
MS1008GX	Men's Siren Size 10.5	5,064	139.76	707,744.64
MS1009GX	Men's Siren Size 11	3976	139.76	555,685.76
MS1010GX	Men's Siren Size 11.5	1,985	139.76	277,423.60
MS1011GX	Men's Siren Size 12	1835	139.76	256,459.60
MS1012GX	Men's Siren Size 12.5	1247	139.76	174,280.72
MS1013GX	Men's Siren Size 13	720	139.76	100,627.20
MS1014GX	Men's Siren Size 13.5	393	139.76	54,925.68
MS1015GX	Men's Siren Size 14	234	139.76	32,703.84
MS1016GX	Men's Siren Size 14.5	365	139.76	51,012.40
WS1017GX	Women's Siren Size 5	1915	139.76	267,640.40
WS1018GX	Women's Siren Size 5.5	2,849	139.76	398,176.24
WS1019GX	Women's Siren Size 6	2427	139.76	339,197.52
WS1020GX	Women's Siren Size 6.5	2580	139.76	360,580.80
WS1021GX	Women's Siren Size 7	3027	139.76	423,053.52
WS1022GX	Women's Siren Size 7.5	2093	139.76	292,517.68
WS1023GX	Women's Siren Size 8	2832	139.76	395,800.32
WS1024GX	Women's Siren Size 8.5	3,128	139.76	437,169.28
WS1025GX	Women's Siren Size 9	5419	139.76	757,359.44
WS1026GX	Women's Siren Size 9.5	2,781	139.76	388,672.56
WS1027GX	Women's Siren Size 10	2275	139.76	317,954.00
WS1028GX	Women's Siren Size 10.5	989	139.76	138,222.64
WS1029GX	Women's Siren Size 11	408	139.76	57,022.08
WS1030GX	Women's Siren Size 11.5	698	139.76	97,552.48
WS1031GX	Women's Siren Size 12	693	139.76	96,853.68
WS1032GX	Women's Siren Size 12.5	929	139.76	129,837.04
WS1033GX	Women's Siren Size 13	520	139.76	72,675.20
MS2001MX	Men's Speaker Size 6	3841	116.71	448,283.11
MS2002MX	Men's Speaker Size 6.5	4681	116.71	546,319.51
MS2003MX	Men's Speaker Size 7	5021	116.71	586,000.91
MS2004MX	Men's Speaker Size 7.5	7592	116.71	886,062.32
MS2005MX	Men's Speaker Size 8	6116	116.71	713,798.36
MS2006MX	Men's Speaker Size 8.5	17363	116.71	2,026,435.73
MS2007MX	Men's Speaker Size 9	17,029	116.71	1,987,454.59
MS2008MX	Men's Speaker Size 9.5	11064	116.71	1,291,279.44
MS2009MX	Men's Speaker Size 10	14,748	116.71	1,721,239.08

MS2010MX	Men's Speaker Size 10.5	14866	116.71	1,735,010.86
MS2011MX	Men's Speaker Size 11	4807	116.71	561,024.97
MS2012MX	Men's Speaker Size 11.5	1666	116.71	194,438.86
MS2013MX	Men's Speaker Size 12	2,480	116.71	289,440.80
MS2014MX	Men's Speaker Size 12.5	1492	116.71	174,131.32
MS2015MX	Men's Speaker Size 13	782	116.71	91,267.22
WS2020MX	Women's Speaker Size 7	7079	116.71	826,190.09
WS2025MX	Women's Speaker Size 9.5	7,099	116.71	828,524.29
WS2026MX	Women's Speaker Size 10	4787	116.71	558,690.77
WS2027MX	Women's Speaker Size 10.5	1670	116.71	194,905.70
WS2028MX	Women's Speaker Size 11	2399	116.71	279,987.29
WS2029MX	Women's Speaker Size 11.5	579	116.71	67,575.09
MS3001MG	Men's Spotlight Size 6	1836	205.27	376,875.72
MS3002MG	Men's Spotlight Size 6.5	1227	205.27	251,866.29
MS3003MG	Men's Spotlight Size 7	1375	205.27	282,246.25
MS3004MG	Men's Spotlight Size 7.5	1729	205.27	354,911.83
MS3005MG	Men's Spotlight Size 8	1808	205.27	371,128.16
MS3006MG	Men's Spotlight Size 8.5	1322	205.27	271,366.94
MS3007MG	Men's Spotlight Size 9	1797	205.27	368,870.19
MS3008MG	Men's Spotlight Size 9.5	1719	205.27	352,859.13
MS3009MG	Men's Spotlight Size 10	2679	205.27	549,918.33
MS3010MG	Men's Spotlight Size 10.5	3,089	205.27	634,079.03
MS3011MG	Men's Spotlight Size 11	2286	205.27	469,247.22
MS3012MG	Men's Spotlight Size 11.5	2,428	205.27	498,395.56
MS3013MG	Men's Spotlight Size 12	904	205.27	185,564.08
MS3014MG	Men's Spotlight Size 12.5	284	205.27	58,296.68
MS3015MG	Men's Spotlight Size 13	488	205.27	100,171.76
MS3016MG	Men's Spotlight Size 14	661	205.27	135,683.47
MS3017MG	Men's Spotlight Size 15	1494	205.27	306,673.38
WS3019MG	Women's Spotlight Size 5	1005	205.27	206,296.35
WS3020MG	Women's Spotlight Size 5.5	2142	205.27	439,688.34
WS3021MG	Women's Spotlight Size 6	2376	205.27	487,721.52
WS3022MG	Women's Spotlight Size 6.5	2536	205.27	520,564.72
WS3023MG	Women's Spotlight Size 7	1935	205.27	397,197.45
WS3024MG	Women's Spotlight Size 7.5	2504	205.27	513,996.08
WS3025MG	Women's Spotlight Size 8	2013	205.27	413,208.51
WS3026MG	Women's Spotlight Size 8.5	4627	205.27	949,784.29
WS3027MG	Women's Spotlight Size 9	4,778	205.27	980,780.06
WS3028MG	Women's Spotlight Size 9.5	2461	205.27	505,169.47
WS3029MG	Women's Spotlight Size 10	3,675	205.27	754,367.25
WS3030MG	Women's Spotlight Size 10.5	2369	205.27	486,284.63
WS3031MG	Women's Spotlight Size 11	3,317	205.27	680,880.59
WS3032MG	Women's Spotlight Size 11.5	1658	205.27	340,337.66
WS3033MG	Women's Spotlight Size 12	1981	205.27	406,639.87
WS3034MG	Women's Spotlight Size 12.5	3555	205.27	729,734.85
WS3035MG	Women's Spotlight Size 13	1179	205.27	242,013.33
<b>Subtotal</b>				<b>41,478,351.70</b>
<b>Tax</b>				<b>0.00</b>
<b>Freight</b>				<b>0.00</b>
<b>Miscellaneous</b>				<b>0.00</b>
<b>Total Billed Price</b>				<b>41,478,351.70</b>

**INVOICE**

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**No 1004346**

**Anglonesia Rehabilitation and Reprogramming Institute**  
**31XPZ Chancellor Anglonesia, GH327MQ**

**Date 12/2/07**  
**VIA: Cargo, Freight paid by Shipper**  
**Terms: 2/10, net 30, FOB Destination**

**Bill To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

**Ship To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

<b>Item #</b>	<b>Description</b>	<b>Quantity</b>	<b>Unit Price</b>	<b>Total</b>
MS1001GX	Men's Siren Size 7	2233	139.76	312,084.08
MS1002GX	Men's Siren Size 7.5	2,339	139.76	326,898.64
MS1003GX	Men's Siren Size 8	2070	139.76	289,303.20
MS1011GX	Men's Siren Size 12	2,112	139.76	295,173.12
MS1012GX	Men's Siren Size 12.5	1266	139.76	176,936.16
MS1013GX	Men's Siren Size 13	844	139.76	117,957.44
MS1014GX	Men's Siren Size 13.5	410	139.76	57,301.60
MS1015GX	Men's Siren Size 14	234	139.76	32,703.84
WS1019GX	Women's Siren Size 6	2411	139.76	336,961.36
WS1020GX	Women's Siren Size 6.5	2,936	139.76	410,335.36
WS1021GX	Women's Siren Size 7	2896	139.76	404,744.96
WS1022GX	Women's Siren Size 7.5	1,990	139.76	278,122.40
WS1028GX	Women's Siren Size 10.5	909	139.76	127,041.84
WS1029GX	Women's Siren Size 11	374	139.76	52,270.24
WS1033GX	Women's Siren Size 13	555	139.76	77,566.80
MS2001MX	Men's Speaker Size 6	3,706	116.71	432,527.26
MS2002MX	Men's Speaker Size 6.5	4983	116.71	581,565.93
MS2003MX	Men's Speaker Size 7	5,078	116.71	592,653.38
MS2004MX	Men's Speaker Size 7.5	7955	116.71	928,428.05
MS2005MX	Men's Speaker Size 8	6,902	116.71	805,532.42
MS2011MX	Men's Speaker Size 11	5015	116.71	585,300.65
MS2012MX	Men's Speaker Size 11.5	1,805	116.71	210,661.55
MS2014MX	Men's Speaker Size 12.5	1465	116.71	170,980.15
MS2015MX	Men's Speaker Size 13	696	116.71	81,230.16
WS2016MX	Women's Speaker Size 5	13490	116.71	1,574,417.90
WS2017MX	Women's Speaker Size 5.5	14,487	116.71	1,690,777.77
WS2018MX	Women's Speaker Size 6	13030	116.71	1,520,731.30
WS2019MX	Women's Speaker Size 6.5	13,453	116.71	1,570,099.63
WS2020MX	Women's Speaker Size 7	7154	116.71	834,943.34
WS2021MX	Women's Speaker Size 7.5	15,923	116.71	1,858,373.33
WS2022MX	Women's Speaker Size 8	16235	116.71	1,894,786.85
WS2023MX	Women's Speaker Size 8.5	16,288	116.71	1,900,972.48
WS2024MX	Women's Speaker Size 9	15121	116.71	1,764,771.91
WS2025MX	Women's Speaker Size 9.5	6,587	116.71	768,768.77
WS2026MX	Women's Speaker Size 10	4663	116.71	544,218.73
WS2027MX	Women's Speaker Size 10.5	1,809	116.71	211,128.39
WS2029MX	Women's Speaker Size 11.5	560	116.71	65,357.60
MS3001MG	Men's Spotlight Size 6	1,696	205.27	348,137.92
MS3002MG	Men's Spotlight Size 6.5	1258	205.27	258,229.66
MS3003MG	Men's Spotlight Size 7	1,444	205.27	296,409.88
MS3004MG	Men's Spotlight Size 7.5	1853	205.27	380,365.31
MS3005MG	Men's Spotlight Size 8	1,757	205.27	360,659.39



MS3006MG	Men's Spotlight Size 8.5	1296	205.27	266,029.92
MS3007MG	Men's Spotlight Size 9	1,713	205.27	351,627.51
MS3008MG	Men's Spotlight Size 9.5	1617	205.27	331,921.59
MS3013MG	Men's Spotlight Size 12	806	205.27	165,447.62
MS3014MG	Men's Spotlight Size 12.5	291	205.27	59,733.57
MS3015MG	Men's Spotlight Size 13	557	205.27	114,335.39
MS3016MG	Men's Spotlight Size 14	703	205.27	144,304.81
WS3019MG	Women's Spotlight Size 5	1,041	205.27	213,686.07
WS3020MG	Women's Spotlight Size 5.5	2,132	205.27	437,635.64
WS3021MG	Women's Spotlight Size 6	2,060	205.27	422,856.20
WS3022MG	Women's Spotlight Size 6.5	2,495	205.27	512,148.65
WS3023MG	Women's Spotlight Size 7	1,970	205.27	404,381.90
WS3024MG	Women's Spotlight Size 7.5	2,478	205.27	508,659.06
WS3025MG	Women's Spotlight Size 8	1,945	205.27	399,250.15
WS3028MG	Women's Spotlight Size 9.5	2,098	205.27	430,656.46
WS3032MG	Women's Spotlight Size 11.5	1,574	205.27	323,094.98
WS3033MG	Women's Spotlight Size 12	1,721	205.27	353,269.67
WS3035MG	Women's Spotlight Size 13	1,192	205.27	244,681.84
<b>Subtotal</b>				<b>31,211,151.78</b>
<b>Tax</b>				<b>0.00</b>
<b>Freight</b>				<b>0.00</b>
<b>Miscellaneous</b>				<b>0.00</b>
<b>Total Billed Price</b>				<b>31,211,151.78</b>

**INVOICE**

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**No 1004347**

**Anglonesia Rehabilitation and Reprogramming Institute**  
**31XPZ Chancellor Anglonesia, GH327MQ**

**Date** 12/26/2007  
**VIA:** Cargo, Freight paid by Shipper  
**Terms:** 2/10, net 30, FOB Destination

**Bill To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

**Ship To:**  
**Apollo Shoes**  
**One Shoe Place**  
**Shoetown, ME 00001**

<b>Item #</b>	<b>Description</b>	<b>Quantity</b>	<b>Unit Price</b>	<b>Total</b>
MS1001GX	Men's Siren Size 7	892	139.76	124,665.92
MS1002GX	Men's Siren Size 7.5	1128	139.76	157,649.28
MS1003GX	Men's Siren Size 8	1073	139.76	149,962.48
MS1014GX	Men's Siren Size 13.5	173	139.76	24,178.48
MS1015GX	Men's Siren Size 14	103	139.76	14,395.28
MS1016GX	Men's Siren Size 14.5	160	139.76	22,361.60
WS1017GX	Women's Siren Size 5	841	139.76	117,538.16
WS1019GX	Women's Siren Size 6	1065	139.76	148,844.40
WS1020GX	Women's Siren Size 6.5	1132	139.76	158,208.32
WS1021GX	Women's Siren Size 7	1328	139.76	185,601.28
WS1022GX	Women's Siren Size 7.5	919	139.76	128,439.44
WS1023GX	Women's Siren Size 8	1243	139.76	173,721.68
WS1024GX	Women's Siren Size 8.5	1373	139.76	191,890.48
WS1025GX	Women's Siren Size 9	2378	139.76	332,349.28
WS1026GX	Women's Siren Size 9.5	1220	139.76	170,507.20
WS1027GX	Women's Siren Size 10	998	139.76	139,480.48
WS1028GX	Women's Siren Size 10.5	434	139.76	60,655.84
WS1029GX	Women's Siren Size 11	179	139.76	25,017.04
WS1030GX	Women's Siren Size 11.5	306	139.76	42,766.56
WS1032GX	Women's Siren Size 12.5	408	139.76	57,022.08
MS2001MX	Men's Speaker Size 6	1685	116.71	196,656.35
MS2003MX	Men's Speaker Size 7	2203	116.71	257,112.13
MS2004MX	Men's Speaker Size 7.5	3331	116.71	388,761.01
MS2005MX	Men's Speaker Size 8	2684	116.71	313,249.64
MS2011MX	Men's Speaker Size 11	2109	116.71	246,141.39
MS2012MX	Men's Speaker Size 11.5	731	116.71	85,315.01
MS2013MX	Men's Speaker Size 12	1088	116.71	126,980.48
MS2014MX	Men's Speaker Size 12.5	655	116.71	76,445.05
MS2015MX	Men's Speaker Size 13	343	116.71	40,031.53
WS2020MX	Women's Speaker Size 7	3106	116.71	362,501.26
WS2026MX	Women's Speaker Size 10	2100	116.71	245,091.00
WS2027MX	Women's Speaker Size 10.5	733	116.71	85,548.43
WS2028MX	Women's Speaker Size 11	1053	116.71	122,895.63
MS3001MG	Men's Spotlight Size 6	806	205.27	165,447.62
MS3002MG	Men's Spotlight Size 6.5	538	205.27	110,435.26
MS3003MG	Men's Spotlight Size 7	603	205.27	123,777.81
MS3004MG	Men's Spotlight Size 7.5	759	205.27	155,799.93

MS3005MG	Men's Spotlight Size 8	793	205.27	162,779.11
MS3006MG	Men's Spotlight Size 8.5	580	205.27	119,056.60
MS3008MG	Men's Spotlight Size 9.5	754	205.27	154,773.58
MS3009MG	Men's Spotlight Size 10	1176	205.27	241,397.52
MS3011MG	Men's Spotlight Size 11	1003	205.27	205,885.81
MS3012MG	Men's Spotlight Size 11.5	1065	205.27	218,612.55
MS3014MG	Men's Spotlight Size 12.5	125	205.27	25,658.75
MS3015MG	Men's Spotlight Size 13	214	205.27	43,927.78
MS3017MG	Men's Spotlight Size 15	656	205.27	134,657.12
WS3019MG	Women's Spotlight Size 5	441	205.27	90,524.07
WS3022MG	Women's Spotlight Size 6.5	1113	205.27	228,465.51
WS3023MG	Women's Spotlight Size 7	849	205.27	174,274.23
WS3028MG	Women's Spotlight Size 9.5	1080	205.27	221,691.60
WS3029MG	Women's Spotlight Size 10	1613	205.27	331,100.51
WS3031MG	Women's Spotlight Size 11	1456	205.27	298,873.12
WS3032MG	Women's Spotlight Size 11.5	728	205.27	149,436.56
WS3035MG	Women's Spotlight Size 13	518	205.27	106,329.86
<b>Subtotal</b>				<b>8,434,889.09</b>
<b>Tax</b>				<b>0.00</b>
<b>Freight</b>				<b>0.00</b>
<b>Miscellaneous</b>				<b>0.00</b>
<b>Total Billed Price</b>				<b>8,434,889.09</b>

**Apollo Shoes, Inc**  
**Inventory Warehouse Report -- Post Physical Inventory Count (1 of 3)**  
**December 31, 2007**


Pallet Location		Sku#	Style	Type	Size	Pallet Quantity	Total Quantity	Pallet Location		Sku#	Style	Type	Size	Pallet Quantity	Total Quantity
A1		10010	Siren	Men's	7	1,080		A53	10140	Siren	Men's	13 1/2	746	746	
A2		10010	Siren	Men's	7	1,080		A54	10150	Siren	Men's	14	408	408	
A3		10010	Siren	Men's	7	1,080		A55	10160	Siren	Men's	14 1/2	352	352	
A4		10010	Siren	Men's	7	762	4,002	A56	10170	Siren	Women's	5	1,080		
A5		10020	Siren	Men's	7 1/2	1,080		A57	10170	Siren	Women's	5	747	1,827	
A6		10020	Siren	Men's	7 1/2	1,080		A58	10180	Siren	Women's	5 1/2	1,080		
A7		10020	Siren	Men's	7 1/2	1,080		A59	10180	Siren	Women's	5 1/2	1,080		
A8		10020	Siren	Men's	7 1/2	1,080		A60	10180	Siren	Women's	5 1/2	421	2,581	
A9		10020	Siren	Men's	7 1/2	252	4,572	A61	10190	Siren	Women's	6	1,080		
A10		10030	Siren	Men's	8	1,080		A62	10190	Siren	Women's	6	1,080		
A11		10030	Siren	Men's	8	1,080		A63	10190	Siren	Women's	6	1,080		
A12		10030	Siren	Men's	8	1,080		A64	10190	Siren	Women's	6	889	4,129	
A13		10030	Siren	Men's	8	890	4,130	A65	10200	Siren	Women's	6 1/2	1,080		
A14		10040	Siren	Men's	8 1/2	1,080		A66	10200	Siren	Women's	6 1/2	1,080		
A15		10040	Siren	Men's	8 1/2	1,080		A67	10200	Siren	Women's	6 1/2	1,080		
A16		10040	Siren	Men's	8 1/2	1,080		A68	10200	Siren	Women's	6 1/2	1,080		
A17		10040	Siren	Men's	8 1/2	839	4,079	A69	10200	Siren	Women's	6 1/2	680	5,000	
A18		10050	Siren	Men's	9	1,080		A70	10210	Siren	Women's	7	1,080		
A19		10050	Siren	Men's	9	1,080		A71	10210	Siren	Women's	7	1,080		
A20		10050	Siren	Men's	9	1,080		A72	10210	Siren	Women's	7	1,080		
A21		10050	Siren	Men's	9	1,080		A73	10210	Siren	Women's	7	1,080		
A22		10050	Siren	Men's	9	17	4,337	A74	10210	Siren	Women's	7	1,080		
A23		10060	Siren	Men's	9 1/2	1,080		A75	10210	Siren	Women's	7	381	5,781	
A24		10060	Siren	Men's	9 1/2	1,080		A76	10220	Siren	Women's	7 1/2	1,080		
A25		10060	Siren	Men's	9 1/2	1,080		A77	10220	Siren	Women's	7 1/2	1,080		
A26		10060	Siren	Men's	9 1/2	1,080		A78	10220	Siren	Women's	7 1/2	1,080		
A27		10060	Siren	Men's	9 1/2	320	4,640	A79	10220	Siren	Women's	7 1/2	251	3,491	
A28		10070	Siren	Men's	10	1,080		A80	10230	Siren	Women's	8	1,080		
A29		10070	Siren	Men's	10	1,080		A81	10230	Siren	Women's	8	1,080		
A30		10070	Siren	Men's	10	1,080		A82	10230	Siren	Women's	8	1,080		
A31		10070	Siren	Men's	10	1,080		A83	10230	Siren	Women's	8	1,080		
A32		10070	Siren	Men's	10	520	4,840	A84	10230	Siren	Women's	8	436	4,756	
A33		10080	Siren	Men's	10 1/2	1,080		A85	10240	Siren	Women's	8 1/2	1,080		
A34		10080	Siren	Men's	10 1/2	1,080		A86	10240	Siren	Women's	8 1/2	1,080		
A35		10080	Siren	Men's	10 1/2	1,080		A87	10240	Siren	Women's	8 1/2	490	2,650	
A36		10080	Siren	Men's	10 1/2	1,080		A88	10250	Siren	Women's	9	1,080		
A37		10080	Siren	Men's	10 1/2	265	4,585	A89	10250	Siren	Women's	9	1,080		
A38		10090	Siren	Men's	11	1,080		A90	10250	Siren	Women's	9	1,080		
A39		10090	Siren	Men's	11	1,080		A91	10250	Siren	Women's	9	1,080		
A40		10090	Siren	Men's	11	1,080		A92	10250	Siren	Women's	9	253	4,573	
A41		10090	Siren	Men's	11	404	3,644	A93	10260	Siren	Women's	9 1/2	1,080		
A42		10100	Siren	Men's	11 1/2	1,080		A94	10260	Siren	Women's	9 1/2	1,080		
A43		10100	Siren	Men's	11 1/2	694	1,774	A95	10260	Siren	Women's	9 1/2	513	2,673	
A44		10110	Siren	Men's	12	1,080		A96	10270	Siren	Women's	10	1,080		
A45		10110	Siren	Men's	12	1,080		A97	10270	Siren	Women's	10	992	2,072	
A46		10110	Siren	Men's	12	1,080		A98	10280	Siren	Women's	10 1/2	1,080		
A47		10110	Siren	Men's	12	392	3,632	A99	10280	Siren	Women's	10 1/2	635	1,715	
A48		10120	Siren	Men's	12 1/2	1,080		A100	10290	Siren	Women's	11	740	740	
A49		10120	Siren	Men's	12 1/2	1,080		A101	10300	Siren	Women's	11 1/2	658	658	
A50		10120	Siren	Men's	12 1/2	260	2,420	A102	10310	Siren	Women's	12	609	609	
A51		10130	Siren	Men's	13	1,080		A103	10320	Siren	Women's	12 1/2	823	823	
A52		10130	Siren	Men's	13	344	1,424	A104	10330	Siren	Women's	13	968	968	
B1		20010	Speaker	Men's	6	1,080		B33	20040	Speaker	Men's	7 1/2	1,080		
B2		20010	Speaker	Men's	6	1,080		B34	20040	Speaker	Men's	7 1/2	1,080		
B3		20010	Speaker	Men's	6	1,080		B35	20040	Speaker	Men's	7 1/2	1,080		
B4		20010	Speaker	Men's	6	1,080		B36	20040	Speaker	Men's	7 1/2	1,080		
B5		20010	Speaker	Men's	6	1,080		B37	20040	Speaker	Men's	7 1/2	1,080		
B6		20010	Speaker	Men's	6	1,080		B38	20040	Speaker	Men's	7 1/2	217	14,257	
B7		20010	Speaker	Men's	6	643	7,123	B39	20050	Speaker	Men's	8	1,080		
B8		20020	Speaker	Men's	6 1/2	1,080		B40	20050	Speaker	Men's	8	1,080		
B9		20020	Speaker	Men's	6 1/2	1,080		B41	20050	Speaker	Men's	8	1,080		
B10		20020	Speaker	Men's	6 1/2	1,080		B42	20050	Speaker	Men's	8	1,080		
B11		20020	Speaker	Men's	6 1/2	1,080		B43	20050	Speaker	Men's	8	1,080		
B12		20020	Speaker	Men's	6 1/2	1,080		B44	20050	Speaker	Men's	8	1,080		
B13		20020	Speaker	Men's	6 1/2	1,080		B45	20050	Speaker	Men's	8	1,080		
B14		20020	Speaker	Men's	6 1/2	1,080		B46	20050	Speaker	Men's	8	1,080		
B15		20020	Speaker	Men's	6 1/2	791	8,351	B47	20050	Speaker	Men's	8	1,080		
B16		20030	Speaker	Men's	7	1,080		B48	20050	Speaker	Men's	8	1,080		
B17		20030	Speaker	Men's	7	1,080		B49	20050	Speaker	Men's	8	740	11,540	
B18		20030	Speaker	Men's	7	1,080		B50	20060	Speaker	Men's	8 1/2	1,080		
B19		20030	Speaker	Men's	7	1,080		B51	20060	Speaker	Men's	8 1/2	1,080		
B20		20030	Speaker	Men's	7	1,080		B52	20060	Speaker	Men's	8 1/2	1,080		
B21		20030	Speaker	Men's	7	1,080		B53	20060	Speaker	Men's	8 1/2	1,080		
B22		20030	Speaker	Men's	7	1,080		B54	20060	Speaker	Men's	8 1/2	1,080		
B23		20030	Speaker	Men's	7	1,080		B55	20060	Speaker	Men's	8 1/2	1,080		
B24		20030	Speaker	Men's	7	530	9,170	B56	20060	Speaker	Men's	8 1/2	1,080		
B25		20040	Speaker	Men's	7 1/2	1,080		B57	20060	Speaker	Men's	8 1/2	1,080		
B26		20040	Speaker	Men's	7 1/2	1,080		B58	20060	Speaker	Men's	8 1/2	1,080		
B27		20040	Speaker	Men's	7 1/2	1,080		B59	20060	Speaker	Men's	8 1/2	1,080		
B28		20040	Speaker	Men's	7 1/2	1,080		B60	20060	Speaker	Men's	8 1/2	1,080		
B29		20040	Speaker	Men's	7 1/2	1,080		B61	20060	Speaker	Men's	8 1/2	1,080		
B30		20040	Speaker	Men's	7 1/2	1,080		B62	20060	Speaker	Men's	8 1/2	1,080		
B31		20040	Speaker	Men's	7 1/2	1,080		B63	20060	Speaker	Men's	8 1/2	1,080		
B32		20040	Speaker	Men's	7 1/2	1,080		B64	20060	Speaker	Men's	8 1/2	153	15,273	

**Apollo Shoes, Inc**  
**Inventory Warehouse Report -- Post Physical Inventory Count (2 of 3)**  
**December 31, 2007**

B65	20070 Speaker	Men's	9	1,080	B151	20170 Speaker	Women's	5 1/2	1,080
B66	20070 Speaker	Men's	9	1,080	B152	20170 Speaker	Women's	5 1/2	1,080
B67	20070 Speaker	Men's	9	1,080	B153	20170 Speaker	Women's	5 1/2	1,080
B68	20070 Speaker	Men's	9	1,080	B154	20170 Speaker	Women's	5 1/2	1,080
B69	20070 Speaker	Men's	9	1,080	B155	20170 Speaker	Women's	5 1/2	1,080
B70	20070 Speaker	Men's	9	1,080	B156	20170 Speaker	Women's	5 1/2	1,080
B71	20070 Speaker	Men's	9	1,080	B157	20170 Speaker	Women's	5 1/2	1,080
B72	20070 Speaker	Men's	9	1,080	B158	20170 Speaker	Women's	5 1/2	1,080
B73	20070 Speaker	Men's	9	1,080	B159	20170 Speaker	Women's	5 1/2	1,080
B74	20070 Speaker	Men's	9	1,080	B160	20170 Speaker	Women's	5 1/2	1,080
B75	20070 Speaker	Men's	9	1,080	B161	20170 Speaker	Women's	5 1/2	609
B76	20070 Speaker	Men's	9	1,080	B162	20180 Speaker	Women's	6	1,080
B77	20070 Speaker	Men's	9	1,080	B163	20180 Speaker	Women's	6	1,080
B78	20070 Speaker	Men's	9	1,080	B164	20180 Speaker	Women's	6	1,080
B79	20070 Speaker	Men's	9	305	B165	20180 Speaker	Women's	6	1,080
B80	20080 Speaker	Men's	9 1/2	1,080	B166	20180 Speaker	Women's	6	1,080
B81	20080 Speaker	Men's	9 1/2	1,080	B167	20180 Speaker	Women's	6	1,080
B82	20080 Speaker	Men's	9 1/2	1,080	B168	20180 Speaker	Women's	6	1,080
B83	20080 Speaker	Men's	9 1/2	1,080	B169	20180 Speaker	Women's	6	1,080
B84	20080 Speaker	Men's	9 1/2	1,080	B170	20180 Speaker	Women's	6	1,080
B85	20080 Speaker	Men's	9 1/2	1,080	B171	20180 Speaker	Women's	6	1,080
B86	20080 Speaker	Men's	9 1/2	1,080	B172	20180 Speaker	Women's	6	1,080
B87	20080 Speaker	Men's	9 1/2	1,080	B173	20180 Speaker	Women's	6	236
B88	20080 Speaker	Men's	9 1/2	1,080	B174	20190 Speaker	Women's	6 1/2	1,080
B89	20080 Speaker	Men's	9 1/2	512	B175	20190 Speaker	Women's	6 1/2	1,080
B90	20090 Speaker	Men's	10	1,080	B176	20190 Speaker	Women's	6 1/2	1,080
B91	20090 Speaker	Men's	10	1,080	B177	20190 Speaker	Women's	6 1/2	1,080
B92	20090 Speaker	Men's	10	1,080	B178	20190 Speaker	Women's	6 1/2	1,080
B93	20090 Speaker	Men's	10	1,080	B179	20190 Speaker	Women's	6 1/2	1,080
B94	20090 Speaker	Men's	10	1,080	B180	20190 Speaker	Women's	6 1/2	1,080
B95	20090 Speaker	Men's	10	1,080	B181	20190 Speaker	Women's	6 1/2	1,080
B96	20090 Speaker	Men's	10	1,080	B182	20190 Speaker	Women's	6 1/2	1,080
B97	20090 Speaker	Men's	10	1,080	B183	20190 Speaker	Women's	6 1/2	1,080
B98	20090 Speaker	Men's	10	1,080	B184	20190 Speaker	Women's	6 1/2	1,080
B99	20090 Speaker	Men's	10	1,080	B185	20190 Speaker	Women's	6 1/2	1,010
B100	20090 Speaker	Men's	10	1,080	B186	20200 Speaker	Women's	7	1,080
B101	20090 Speaker	Men's	10	1,080	B187	20200 Speaker	Women's	7	1,080
B102	20090 Speaker	Men's	10	1,080	B188	20200 Speaker	Women's	7	1,080
B103	20090 Speaker	Men's	10	220	B189	20200 Speaker	Women's	7	1,080
B104	20100 Speaker	Men's	10 1/2	1,080	B190	20200 Speaker	Women's	7	1,080
B105	20100 Speaker	Men's	10 1/2	1,080	B191	20200 Speaker	Women's	7	1,080
B106	20100 Speaker	Men's	10 1/2	1,080	B192	20200 Speaker	Women's	7	1,080
B107	20100 Speaker	Men's	10 1/2	1,080	B193	20200 Speaker	Women's	7	1,080
B108	20100 Speaker	Men's	10 1/2	1,080	B194	20200 Speaker	Women's	7	1,080
B109	20100 Speaker	Men's	10 1/2	1,080	B195	20200 Speaker	Women's	7	1,080
B110	20100 Speaker	Men's	10 1/2	1,080	B196	20200 Speaker	Women's	7	1,080
B111	20100 Speaker	Men's	10 1/2	1,080	B197	20200 Speaker	Women's	7	1,080
B112	20100 Speaker	Men's	10 1/2	1,080	B198	20200 Speaker	Women's	7	660
B113	20100 Speaker	Men's	10 1/2	1,080	B199	20210 Speaker	Women's	7 1/2	1,080
B114	20100 Speaker	Men's	10 1/2	1,080	B200	20210 Speaker	Women's	7 1/2	1,080
B115	20100 Speaker	Men's	10 1/2	1,080	B201	20210 Speaker	Women's	7 1/2	1,080
B116	20100 Speaker	Men's	10 1/2	52	B202	20210 Speaker	Women's	7 1/2	1,080
B117	20110 Speaker	Men's	11	1,080	B203	20210 Speaker	Women's	7 1/2	1,080
B118	20110 Speaker	Men's	11	1,080	B204	20210 Speaker	Women's	7 1/2	1,080
B119	20110 Speaker	Men's	11	1,080	B205	20210 Speaker	Women's	7 1/2	1,080
B120	20110 Speaker	Men's	11	1,080	B206	20210 Speaker	Women's	7 1/2	1,080
B121	20110 Speaker	Men's	11	1,080	B207	20210 Speaker	Women's	7 1/2	1,080
B122	20110 Speaker	Men's	11	1,080	B208	20210 Speaker	Women's	7 1/2	1,080
B123	20110 Speaker	Men's	11	1,080	B209	20210 Speaker	Women's	7 1/2	1,080
B124	20110 Speaker	Men's	11	1,080	B210	20210 Speaker	Women's	7 1/2	1,080
B125	20110 Speaker	Men's	11	530	B211	20210 Speaker	Women's	7 1/2	1,080
B126	20120 Speaker	Men's	11 1/2	1,080	B212	20210 Speaker	Women's	7 1/2	865
B127	20120 Speaker	Men's	11 1/2	1,080	B213	20220 Speaker	Women's	8	1,080
B128	20120 Speaker	Men's	11 1/2	1,002	B214	20220 Speaker	Women's	8	1,080
B129	20130 Speaker	Men's	12	1,080	B215	20220 Speaker	Women's	8	1,080
B130	20130 Speaker	Men's	12	1,080	B216	20220 Speaker	Women's	8	1,080
B131	20130 Speaker	Men's	12	79	B217	20220 Speaker	Women's	8	1,080
B132	20140 Speaker	Men's	12 1/2	1,080	B218	20220 Speaker	Women's	8	1,080
B133	20140 Speaker	Men's	12 1/2	1,080	B219	20220 Speaker	Women's	8	1,080
B134	20140 Speaker	Men's	12 1/2	604	B220	20220 Speaker	Women's	8	1,080
B135	20150 Speaker	Men's	13	1,080	B221	20220 Speaker	Women's	8	1,080
B136	20150 Speaker	Men's	13	280	B222	20220 Speaker	Women's	8	1,080
B137	20160 Speaker	Women's	5	1,080	B223	20220 Speaker	Women's	8	1,080
B138	20160 Speaker	Women's	5	1,080	B224	20220 Speaker	Women's	8	1,080
B139	20160 Speaker	Women's	5	1,080	B225	20220 Speaker	Women's	8	1,080
B140	20160 Speaker	Women's	5	1,080	B226	20220 Speaker	Women's	8	586
B141	20160 Speaker	Women's	5	1,080	B227	20230 Speaker	Women's	8 1/2	1,080
B142	20160 Speaker	Women's	5	1,080	B228	20230 Speaker	Women's	8 1/2	1,080
B143	20160 Speaker	Women's	5	1,080	B229	20230 Speaker	Women's	8 1/2	1,080
B144	20160 Speaker	Women's	5	1,080	B230	20230 Speaker	Women's	8 1/2	1,080
B145	20160 Speaker	Women's	5	1,080	B231	20230 Speaker	Women's	8 1/2	1,080
B146	20160 Speaker	Women's	5	1,080	B232	20230 Speaker	Women's	8 1/2	1,080
B147	20160 Speaker	Women's	5	1,080	B233	20230 Speaker	Women's	8 1/2	1,080
B148	20160 Speaker	Women's	5	95	B234	20230 Speaker	Women's	8 1/2	1,080
B149	20170 Speaker	Women's	5 1/2	1,080	B235	20230 Speaker	Women's	8 1/2	1,080
B150	20170 Speaker	Women's	5 1/2	1,080	B236	20230 Speaker	Women's	8 1/2	1,080

**Apollo Shoes, Inc**  
**Inventory Warehouse Report -- Post Physical Inventory Count (3 of 3)**  
**December 31, 2007**

B237	20230 Speaker	Women's	8 1/2	1,080			
B238	20230 Speaker	Women's	8 1/2	1,080			
B239	20230 Speaker	Women's	8 1/2	1,080			
B240	20230 Speaker	Women's	8 1/2	76	14,116		
B241	20240 Speaker	Women's	9	1,080			
B242	20240 Speaker	Women's	9	1,080			
B243	20240 Speaker	Women's	9	1,080			
B244	20240 Speaker	Women's	9	1,080			
B245	20240 Speaker	Women's	9	1,080			
B246	20240 Speaker	Women's	9	1,080			
B247	20240 Speaker	Women's	9	1,080			
B248	20240 Speaker	Women's	9	1,080			
B249	20240 Speaker	Women's	9	1,080			
B250	20240 Speaker	Women's	9	1,080			
B251	20240 Speaker	Women's	9	1,080			
B252	20240 Speaker	Women's	9	1,080			
B253	20240 Speaker	Women's	9	1,080			
B254	20240 Speaker	Women's	9	373	14,413		
B255	20250 Speaker	Women's	9 1/2	1,080			
B256	20250 Speaker	Women's	9 1/2	1,080			
B257	20250 Speaker	Women's	9 1/2	1,080			
B258	20250 Speaker	Women's	9 1/2	1,080			
B259	20250 Speaker	Women's	9 1/2	1,080			
B260	20250 Speaker	Women's	9 1/2	1,080			
B261	20250 Speaker	Women's	9 1/2	1,080			
B262	20250 Speaker	Women's	9 1/2	1,080			
B263	20250 Speaker	Women's	9 1/2	1,080			
B264	20250 Speaker	Women's	9 1/2	1,080			
B265	20250 Speaker	Women's	9 1/2	1,080			
B266	20250 Speaker	Women's	9 1/2	203	12,083		
B267	20260 Speaker	Women's	10	1,080			
B268	20260 Speaker	Women's	10	1,080			
B269	20260 Speaker	Women's	10	1,080			
B270	20260 Speaker	Women's	10	1,080			
B271	20260 Speaker	Women's	10	1,080			
B272	20260 Speaker	Women's	10	1,080			
B273	20260 Speaker	Women's	10	1,080			
B274	20260 Speaker	Women's	10	818	8,378		
B275	20270 Speaker	Women's	10 1/2	1,080			
B276	20270 Speaker	Women's	10 1/2	1,080			
B277	20270 Speaker	Women's	10 1/2	1,080			
B278	20270 Speaker	Women's	10 1/2	16	3,256		
B279	20280 Speaker	Women's	11	1,080			
B280	20280 Speaker	Women's	11	1,080			
B281	20280 Speaker	Women's	11	100	2,260		
B282	20290 Speaker	Women's	11 1/2	1,051	1,051		
C1	30010 Spotlight	Men's	6	1,080			
C2	30010 Spotlight	Men's	6	1,080			
C3	30010 Spotlight	Men's	6	1,080			
C4	30010 Spotlight	Men's	6	36	3,276		
C5	30020 Spotlight	Men's	6 1/2	1,080			
C6	30020 Spotlight	Men's	6 1/2	1,080			
C7	30020 Spotlight	Men's	6 1/2	186	2,346		
C8	30030 Spotlight	Men's	7	1,080			
C9	30030 Spotlight	Men's	7	1,080			
C10	30030 Spotlight	Men's	7	358	2,518		
C11	30040 Spotlight	Men's	7 1/2	1,080			
C12	30040 Spotlight	Men's	7 1/2	1,080			
C13	30040 Spotlight	Men's	7 1/2	987	3,147		
C14	30050 Spotlight	Men's	8	1,080			
C15	30050 Spotlight	Men's	8	1,080			
C16	30050 Spotlight	Men's	8	947	3,107		
C17	30060 Spotlight	Men's	8 1/2	1,080			
C18	30060 Spotlight	Men's	8 1/2	1,080			
C19	30060 Spotlight	Men's	8 1/2	400	2,560		
C20	30070 Spotlight	Men's	9	1,080			
C21	30070 Spotlight	Men's	9	1,080			
C22	30070 Spotlight	Men's	9	1,080			
C23	30070 Spotlight	Men's	9	121	3,361		
C24	30080 Spotlight	Men's	9 1/2	1,080			
C25	30080 Spotlight	Men's	9 1/2	1,080			
C26	30080 Spotlight	Men's	9 1/2	1,027	3,187		
C27	30090 Spotlight	Men's	10	1,080			
C28	30090 Spotlight	Men's	10	1,080			
C29	30090 Spotlight	Men's	10	481	2,641		
C30	30100 Spotlight	Men's	10 1/2	1,080			
C31	30100 Spotlight	Men's	10 1/2	1,080			
C32	30100 Spotlight	Men's	10 1/2	473	2,633		
C33	30110 Spotlight	Men's	11	1,080			
C34	30110 Spotlight	Men's	11	1,081	2,161		
C35	30120 Spotlight	Men's	11 1/2	1,080			
C36	30120 Spotlight	Men's	11 1/2	1,080			
C37	30120 Spotlight	Men's	11 1/2	144	2,304		
C38	30130 Spotlight	Men's	12	1,080			
C39	30130 Spotlight	Men's	12	438	1,518		
C40	30140 Spotlight	Men's	12 1/2	565	565		
C41	30150 Spotlight	Men's	13	939	939		
C42	30160 Spotlight	Men's	14	1,080			
C43	30160 Spotlight	Men's	14	190	1,270		
C44	30170 Spotlight	Men's	15	1,080			
C45	30170 Spotlight	Men's	15	240	1,320		
C46	30180 Spotlight	Men's	23	1,080			
C47	30180 Spotlight	Men's	23	1,080			
C48	30180 Spotlight	Men's	23	74	2,234		
C49	30190 Spotlight	Women's	5	1,080			
C50	30190 Spotlight	Women's	5	804	1,884		
C51	30200 Spotlight	Women's	5 1/2	1,080			
C52	30200 Spotlight	Women's	5 1/2	1,080			
C53	30200 Spotlight	Women's	5 1/2	1,080			
C54	30200 Spotlight	Women's	5 1/2	520	3,760		
C55	30210 Spotlight	Women's	6	1,080			
C56	30210 Spotlight	Women's	6	1,080			
C57	30210 Spotlight	Women's	6	1,080			
C58	30210 Spotlight	Women's	6	856	4,096		
C59	30220 Spotlight	Women's	6 1/2	1,080			
C60	30220 Spotlight	Women's	6 1/2	1,080			
C61	30220 Spotlight	Women's	6 1/2	1,080			
C62	30220 Spotlight	Women's	6 1/2	1,080			
C63	30220 Spotlight	Women's	6 1/2	262	4,582		
C64	30230 Spotlight	Women's	7	1,080			
C65	30230 Spotlight	Women's	7	1,080			
C66	30230 Spotlight	Women's	7	1,080			
C67	30230 Spotlight	Women's	7	291	3,531		
C68	30240 Spotlight	Women's	7 1/2	1,080			
C69	30240 Spotlight	Women's	7 1/2	1,080			
C70	30240 Spotlight	Women's	7 1/2	1,080			
C71	30240 Spotlight	Women's	7 1/2	1,080			
C72	30240 Spotlight	Women's	7 1/2	581	4,901		
C73	30250 Spotlight	Women's	8	1,080			
C74	30250 Spotlight	Women's	8	1,080			
C75	30250 Spotlight	Women's	8	1,080			
C76	30250 Spotlight	Women's	8	539	3,779		
C77	30260 Spotlight	Women's	8 1/2	1,080			
C78	30260 Spotlight	Women's	8 1/2	1,080			
C79	30260 Spotlight	Women's	8 1/2	1,080			
C80	30260 Spotlight	Women's	8 1/2	1,080			
C81	30260 Spotlight	Women's	8 1/2	169	4,489		
C82	30270 Spotlight	Women's	9	1,080			
C83	30270 Spotlight	Women's	9	1,080			
C84	30270 Spotlight	Women's	9	1,080			
C85	30270 Spotlight	Women's	9	1,076	4,316		
C86	30280 Spotlight	Women's	9 1/2	1,080			
C87	30280 Spotlight	Women's	9 1/2	1,080			
C88	30280 Spotlight	Women's	9 1/2	1,080			
C89	30280 Spotlight	Women's	9 1/2	894	4,134		
C90	30290 Spotlight	Women's	10	1,080			
C91	30290 Spotlight	Women's	10	1,080			
C92	30290 Spotlight	Women's	10	1,080			
C93	30290 Spotlight	Women's	10	522	3,762		
C94	30300 Spotlight	Women's	10 1/2	1,080			
C95	30300 Spotlight	Women's	10 1/2	991	2,071		
C96	30310 Spotlight	Women's	11	1,080			
C97	30310 Spotlight	Women's	11	1,080			
C98	30310 Spotlight	Women's	11	967	3,127		
C99	30320 Spotlight	Women's	11 1/2	1,080			
C100	30320 Spotlight	Women's	11 1/2	1,080			
C101	30320 Spotlight	Women's	11 1/2	919	3,079		
C102	30330 Spotlight	Women's	12	1,080			
C103	30330 Spotlight	Women's	12	1,080			
C104	30330 Spotlight	Women's	12	1,080			
C105	30330 Spotlight	Women's	12	90	3,330		
C106	30340 Spotlight	Women's	12 1/2	1,080			
C107	30340 Spotlight	Women's	12 1/2	1,080			
C108	30340 Spotlight	Women's	12 1/2	1,025	3,185		
C109	30350 Spotlight	Women's	13	1,080			
C110	30350 Spotlight	Women's	13	983	2,063		



**Prepays &  
Other Assets**

Date: Wed, 30 JAN 2008 10:24:53 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Prepaids and Other Assets

### **Prepaids**

**Audit prepaids**, but don't spend too much time on them. There just isn't a lot of exposure there. Because the amounts are not significant, let "the Crumpler" do most of the legwork (vouching invoices, examining cancelled checks, examining titles, etc.) for you on prepaids and fixed assets. On second thought, insurance expense looks really low compared to last year's – better check it out.

### **Other Assets**

Since I know that your hands have been full, I tried to help out with other assets. With the information below, I think you can **complete the Investments and other assets** sections (*I-I*):

1. By luck, Shock-Proof Socks is one of our firm's clients. I checked with Dave Masterson, the audit manager, about how the company is doing. He said that after reporting no income for several years, they struck gold in 2007, reporting total income of \$3,782,854.04. The company has yet to pay out any dividends though.
2. When I had lunch with Eric Unum, we discussed Apollo's recent purchase of Synergizer Battery stock. He indicated that Larry eventually wanted to purchase controlling stock in the company when Apollo started moving production in-house. While in his office, I examined the broker's confirmation, the cancelled check (# 3582), and examined the stock certificate for 20,000 shares in Apollo's name. The price of the stock was unchanged as of December 31 from its purchase price of 23 5/8. Personally, I would be surprised if Apollo will ever be able to purchase even 5% of Synergizer's stock.
3. You may want to think about the Phoneshoe patent, since the company has decided to discontinue research and development efforts on it.
4. Investment income is comprised the equity earning in Shock-Proof Socks and a transfer from the Controller's Clearing Account for \$480,375.80. The clearing account is a temporary account Apollo uses for out of balance items and transactions they can't identify. If there is a balance at the end of the year, they either recognize miscellaneous income or expense to clear it out. The amount is the same amount as the December 26 purchase of the investment in Synergizer. You may want to investigate this further.
5. Do some analytic procedures on interest income to make sure that it is reasonable with respect to the interest rate on the bank confirmation and compared to last year.

DW



# Acadiana Insurance Agency

2132 Highland Road, Suite 225

Baton Rouge, LA 70803

Phone: 225-555-1212

January 23, 2008

Anderson, Olds and Watershed  
Certified Public Accountants  
Shoetown, ME

This is to confirm that during 2007, Apollo Shoes, Inc. had the following insurance policies listed with this agency:

*State Fire Insurance:* Policy # 624-3200, fire and extended coverage on plant building and contents, \$50,000,000, \$100,000 deductible, dated January 1, 2005, 4-year term, premium \$1,414,414.92.

*Ironworks Insurance Group:* Policy # 1645-O32-692, corporate vehicle liability, \$500,000, dated January 1, 2005, 3-year term, premium \$108,320.76.

*Rock Solid Fidelity:* Policy # UTK-394, fidelity bond on employees and directors, \$250,000, dated January 1, 2007, 5-year term, premium \$ 2,667,006.32. The previous fidelity bond policy (UTK-393) expired as of December 31, 2006. It was a one-year policy with a premium of \$464,232.

Sincerely Yours,

*Bubba Thibodeaux*

---

Louisiana Insurance Agency

**Apollo Shoes, Inc.**  
**Prepaid Expenses Lead Schedule**  
**For Year Ended 12/31/2007**

**E-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Additions</b>	<b>Amortization/ Disposals</b>	<b>Unaudited Balance 12/31/2007</b>
14100	Prepaid Insurance	\$743,314.38	\$2,667,006.32	\$36,106.92	\$3,374,213.78
14200	Pre Paid Rent	\$200,000.00	\$1,003,574.00	\$1,203,574.00	\$0.00
14300	Office Supplies	\$7,406.82	\$26,025.00	\$24,891.82	\$8,540.00
		\$950,721.20	\$3,696,605.32	\$1,264,572.74	\$3,382,753.78

**Apollo Shoes, Inc.**  
**Other Assets Lead Schedule**  
**For Year Ended 12/31/2007**

I-1

<i>Prepared by</i>	
<i>Reviewed by</i>	

PBC

Acct #	Date	Description	(Audited) Cost 12/31/2006	Additions	Deletions	Unaudited Balance 12/31/2007
19000		<b>Equity Investments</b>				
	6/24/2004	Shock Proof Socks, Inc. 25% Share	\$612,691.08	\$945,713.51	\$0.00	\$1,558,404.59
	12/26/2007	Synergizer Battery Company 20,000 shares purchased at \$23 5/8 per share on 12/26. (Commission costs amounted to 7,875.80)	\$0.00	\$480,375.80		\$480,375.80
			\$612,691.08	\$1,426,089.31	\$0.00	\$2,038,780.39
19900		<b>Other Non-current Assets</b>				
	12/31/2006	Phoneshoe patent registration expenses	\$13,840.59	\$0.00	\$0.00	\$13,840.59
			\$626,531.67	\$1,426,089.31	\$0.00	\$2,052,620.98

Date: Thur, 7 FEB 2008 12:35:15 +0000  
From: "Bradley Crumpler" <TheCrumpler@AOW.com>  
Subject: Prepaids

Well I did all your work for you (again!):

- I examined five cancelled checks written during the year for \$200,000 each for building rental through June 30, 2007. Even though they moved into a new building in February 2006, they couldn't get out of their lease until this year.
- As I noted in my e-mail about the inventory observation, I observed the counting of office supplies on December 31. They all appeared to be there.
- I don't know or understand what you want me to do with the insurance confirmation. I'll let you do that.

# Fixed Assets

Date: Wed, 30 JAN 2008 10:24:53 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Fixed Assets

They purchased quite a bit of computer equipment in the last couple of years. When you **audit PP&E**, let “the Crumpler” do most of the legwork (vouching invoices, examining cancelled checks, examining titles, etc.) for you. Given all of the recent additions, make sure that the depreciation amounts are correct.

**Apollo Shoes, Inc.**  
**Fixed Asset Detail Listing**  
**12/31/2007**

**F-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

Depreciation Expense

Fixed Asset Tag	Acquisition Date	Description	Cost	Estimated Useful Life	2004	2005	2006	2007	Accumulated Depreciation
A32767	7/3/2004	Landrover	\$45,000.00	5	5000	\$9,000.00	\$9,000.00	\$9,000.00	\$32,000.00
A32766	9/1/2005	Jaguar	\$102,000.00	5		\$6,800.00	\$20,400.00	\$20,400.00	\$47,600.00
A32768	9/1/2005	Landrover	\$51,000.00	5		\$3,400.00	\$10,200.00	\$10,200.00	\$23,800.00
A32769	9/1/2005	Landrover	\$51,000.00	5		\$3,400.00	\$10,200.00	\$10,200.00	\$23,800.00
A32764	9/1/2005	Landrover	\$51,000.00	5		\$3,400.00	\$10,200.00	\$10,200.00	\$23,800.00
	2/1/2006	Land	\$117,000.00						\$0.00
	2/1/2006	Building	\$623,905.92	15			\$38,127.58	\$41,593.73	\$79,721.31
Miscellaneous	2/1/2006	Office furniture	\$38,178.54	6			\$5,832.81	\$6,363.09	\$12,195.90
PC0001	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0002	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0003	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0004	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0005	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0006	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0007	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0008	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0009	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0010	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0011	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0012	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0013	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0014	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0015	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0016	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0017	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
PC0018	2/1/2006	Smart Chip 5 Ghz PC	\$5,279.93	3			\$1,613.31	\$1,759.98	\$3,373.29
	4/14/2007	Repair/Repaint original building	\$50,408.00	30				\$1,260.20	\$1,260.20
E00001	7/6/2007	New computing system	\$1,200,519.90	5				\$120,051.99	\$120,051.99
M0001	1/5/2007	Machinery	\$1,295,359.98	5				\$185,051.43	\$185,051.43
			<b>\$3,720,411.05</b>			<b>\$5,000.00</b>	<b>\$26,000.00</b>	<b>\$133,000.00</b>	<b>\$446,000.00</b>
									<b>\$610,000.01</b>

Date: Thur, 7 FEB 2008 12:35:15 +0000  
From: "Bradley Crumpler" <TheCrumpler@AOW.com>  
Subject: PP&E

I mean, do you ever work?!? So here is what I found out:

According to Sam Shaw, the fixed asset coordinator, Apollo Shoes moved into new quarters and acquired new equipment in February 2006. Up to that time, Apollo purchased only a fleet of vehicles for key executives and rented everything else. (All of their salesmen rent cars on an as needed basis for visiting clients.) Since the move, there have been only three major capital additions:

- Apollo repaired damage to the new building from a hurricane in April. Also, the building was repainted at the same time. I examined an invoice from ZZZ Best Building Repair Company for \$50,408.00 as well as the cancelled check.
- The company purchased and installed new machinery to make shoes themselves. Apparently, they have been buying all the shoes pre-made from an overseas company. The machinery was installed in January, but hasn't yet been operated. They hope to start production in January 2008. I examined an invoice for \$1,295,359.98 as well as the cancelled check.
- Apollo purchased and installed a new computer system in July. I examined three invoices and related cancelled checks for \$1,200,519.90. One was to Smart Chip for \$1,000,000. One was to FastMove for moving services for \$519.90. The third was to Professor Josephine Mandeville for \$200,000 for "system analysis consulting."
- I scanned the invoices in the Repairs and Maintenance account. Repairs and small capital additions (<\$5,000) were expensed according to company policy.
- I examined the titles of the land, building, and vehicles. All listed "Apollo Shoes, Inc." as titleholder.





# Liabilities

Date: Thu, 7 FEB 2008 16:35:38 +0000  
From: "Bradley Crumpler" <TheCrumpler@AOW.com>  
Subject: Search for Unrecorded Liabilities

Hey, chill out! I am just doing this gig while I wait to qualify for the PGA tour! Ok, so I went back over your review notes and this is what I did:

1. From the cutoff bank statement in the B-series workpapers, I got a list of all the checks that cleared by January 18.
2. I removed all checks written before 12/31, as they would not relate to December 31 outstanding liabilities anyway.
3. I then traced the remaining checks to the voucher packets. The information is posted in the attached workpaper (*L-3*).
4. Per your instructions, I also examined documents in the open purchase order file, the unmatched receiving report file, and the unmatched invoice file (something that I forgot to do in my initial search audit procedures).

How am I supposed to know if Apollo owes any money or not?

I am going back to the driving range. If you want to stay out of trouble with Darlene, I suggest you'd better prepare the working paper and any necessary adjustments.

**Apollo Shoes, Inc.**  
**Schedule of Current Liabilities**  
**For Year Ended 12/31/2007**

**L-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>2006</b>	<b>2007</b>
20000	Accounts Payable	\$4,633,118.09	\$1,922,095.91
23100	Sales Tax Payable	\$0.00	\$0.00
23200	Wages Payable	\$29,470.32	\$0.00
23300	FICA Employee Withholding	\$1,318.69	\$4,291.25
23350	Medicare Withholding	\$583.99	\$11,414.99
23400	Federal Payroll Taxes Payable	\$6,033.01	\$118,086.12
23500	FUTA Tax Payable	\$0.00	\$0.00
23600	State Payroll Taxes Payable	\$2,815.47	\$42,397.24
23700	SUTA Tax Payable	\$0.00	\$0.00
23800	FICA Employer Withholding	\$1,318.69	\$4,291.25
23900	Medicare Employer Withholding	\$583.99	\$11,414.99

**Apollo Shoes, Inc.**  
**Accounts Payable Schedule**  
**For Year Ended 12/31/2007**

**L-2**

Prepared by	
Reviewed by	

**PBC**

**List of Approved Vendors**

Anglonesian Institute for Reprograming and Rehabilitation	\$0.00
B. Franklin's LP&E	\$0.00
Fleur de Lis Catering	\$6,868.12
Just Boxes	\$0.00
Lawyers "R" Us, LLC	\$1,902,224.45
Office Hacks Supplies	\$1,117.19
Sign Up!	\$4,994.99
Smart Chip	\$0.00
Squint Telephone and Cellular	\$6,891.16
Synergizer Battery Company	\$0.00
Tiger Jaguar Dealership	\$0.00
Zrocks	\$0.00
	<u>\$1,922,095.91</u>

**Apollo Shoes, Inc.**  
**Search for Unrecorded Liabilities**  
**For Year Ended 12/31/2007**

**L-3**

<i>Prepared by</i>	BC
<i>Reviewed by</i>	

<u>From Cutoff Bank Statement:</u>	<u>From Check Register</u>		<u>From Voucher Packet</u>		
<u>Check Date</u>	<u>Amount</u>	<u>Date of Check</u>	<u>Payee</u>	<u>Invoice Date</u>	<u>Description</u>
3622 1/17/08	\$6,683.93	1/13/2008	Smart Chip	12/27/2007	Annual computer maintenance contract—2008
3623 1/17/08	\$2,937.13	1/13/2008	Tiger Jaguar Dealership	1/9/2008	Automobile maintenance on 1/9/08
3624 1/18/08	\$6,868.12	1/13/2008	Fleur de Lis Catering	12/31/2007	Catered Holiday party
3625 1/17/08	\$124.81	1/13/2008	Office Hacks	1/13/2008	Office supplies purchased 1/7/08
3626 1/17/08	\$15,216.88	1/13/2008	B. Franklin's LP&E	1/10/2008	"For December electricity"
3627 1/17/08	\$6,891.16	1/13/2008	Squint Cellular	1/5/2007	December telephone bill
3628 1/17/08	\$6,025.43	1/13/2008	Sam Shaw	N/A	Car washes for fleet of automobiles on 1/13.
3629 1/17/08	\$927.09	1/13/2008	Just Boxes	1/7/2008	Packaging material ordered 1/7/08.
3630 1/18/08	\$8,419.69	1/13/2008	Synergizer Battery Company	1/3/2008	The goods were received on January 6 with bill of lading showing a January 3 shipping date and marked FOB, Shipping - Chicago.
3631 1/18/08	\$8,434,889.09	1/13/2008	Anglonesia R&R Institute	12/26/2007	The receiving report was dated December 31. The accounts payable clerk indicated that the office party was held the afternoon of the 31st and the receiving report was probably not forwarded until the next working day so was not included in year-end accounts payable. This inventory was counted and included in the physical inventory at the end of the year.
3632 1/18/08	\$1,117.19	1/13/2008	Office Hacks	12/31/2007	Business cards, picked up 12/30/07
3633 1/17/08	\$6,924.96	1/13/2008	Smart Chip	1/13/2008	Computer purchased 1/13/08
3634 1/18/08	\$4,994.99	1/13/2008	Sign Up!	12/31/2007	New logos on vehicles on 12/31/07
3635 1/17/08	\$5,174.00	1/13/2008	Zrocks	1/13/2008	Copy machine purchased 1/13/08
3636 1/17/08	\$585.28	1/13/2008	Smart Chip	1/13/2008	Computer supplies picked up 1/13/08

**Apollo Shoes, Inc.**  
**Notes Payable Schedule**  
**For Year Ended 12/31/2007**

**N-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

<b>PBC</b>	<b>(Audited)</b>			<b>Unaudited</b>
<b>Acct #</b>	<b>Account Title</b>	<b>Balance</b>	<b>Additions</b>	<b>Balance</b>
<b>Acct #</b>	<b>Account Title</b>	<b>12/31/2006</b>	<b>Payments</b>	<b>12/31/2007</b>
27000	Notes Payable-Noncurrent	\$0.00	2/2/06 \$10,000,000.00	\$10,000,000.00
24100	Line of Credit	\$10,000,000.00	6/30/07 \$44,053,000.00	\$44,053,000.00
24200	Current Portion Long-Term Debt	\$0.00		\$0.00
		<b>\$10,000,000.00</b>	<b>\$54,053,000.00</b>	<b>\$10,000,000.00</b>
		<b>\$54,053,000.00</b>	<b>\$10,000,000.00</b>	<b>\$54,053,000.00</b>



Payroll

Date: Mon, 11 FEB 2008 16:37:45  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Payroll

One area that we haven't looked at yet is payroll. Can you get the documentation from Karina for payroll and then complete a "bridge workpaper" like you did for the Revenue and Purchasing cycles? As you review the flowchart, enter circled S- and W-symbols for strengths and weaknesses to cross-reference to your workpapers.

**Prepare a bridge working paper (ICP-1) describing the strengths and weaknesses identified by number on the payroll flowchart.** For each strength, describe one or more test of controls audit procedures that might be used to gather evidence on the control. For each weakness indicate the effect on year-end substantive audit procedures.

**Substantive Payroll Procedures (L-4)**

I don't suggest doing any detail testing on payroll. Because there has been little turnover, we can use analytic procedures to get the comfort necessary. Last year's numbers should be close to the current year. Also, the internal auditors have been watching payroll closely.

**Simply obtain a copy of the year-end payroll register and tie in the ending number ("earnings for year") to the trial balance. Compare current year numbers to last years to see if they are reasonable. You may want to compare key executives' salaries with those authorized in the Board minutes to make sure that they are reasonable.**

**Don't forget to accrue for wages payable and other payroll accruals for the last day of December (Apollo's last payday was December 28). You won't need to accrue for State and Federal Unemployment as they are applied only to the first \$7,000 of income.**



Date: Tue, 12 FEB 2008 07:01:02 +0000  
From: "Karina Ramirez" <Kramirez@ApolloShoes.com>  
Subject: Payroll Info

Here is the information you requested on our payroll processing:

1. All hourly employees (clerical and warehouse personnel) are paid biweekly (every 10 workdays) based on hours recorded on time cards maintained by a time clock machine. The time cards are approved by the supervisors. The supervisors take the approved time cards to the payroll department. Salaried employees also are paid biweekly based on a salary schedule approved by the finance committee of the board of directors.
2. The personnel department must approve all new hires, terminations, and hourly rate changes. Forms for each of these actions also are approved by appropriate supervisors and are kept in the personnel office. The personnel clerks notify payroll of the changes by a "payroll change" document.
3. The payroll department maintains the individual employees' payroll records and the forms signed by employees for all pay deductions.
4. Every two weeks, Martha, a clerk in the payroll department, prepares the payroll register (multicopy) from the time cards and the information of the individual payroll records. Martha uses a "write-it-once" system that also prepares a form indicating gross pay, each deduction, net pay, and year-to-date totals. Martha calls this form the "take-home sheet." Willie, a second clerk, checks Martha's work and recalculates the gross pay and all deductions.
5. Two copies of the payroll register and the take-home sheets are sent to the accounts payable department where they are used to prepare a separate voucher for each payroll take-home sheet. The checks then are prepared. Both copies of the payroll register, the voucher, the checks, and the accompanying take-home sheets are sent to the treasurer's office.
6. Mary Costain, the treasurer, reviews the payroll register and the take-home sheets and compares them to the checks and signs the checks. Her secretary takes the hourly employees' checks (and accompanying take-home sheets) to their supervisors for distribution. The salaried employees pick up their checks from the treasurer's office. One copy of the payroll register representing paid checks is filed in the treasurer's office. The second copy and the vouchers are marked PAID and returned to accounts payable.
7. The supervisors distribute the checks every other Friday, holding those not claimed until the employee returns to work.

I think that this should answer all your questions, but if not, just give me a call.

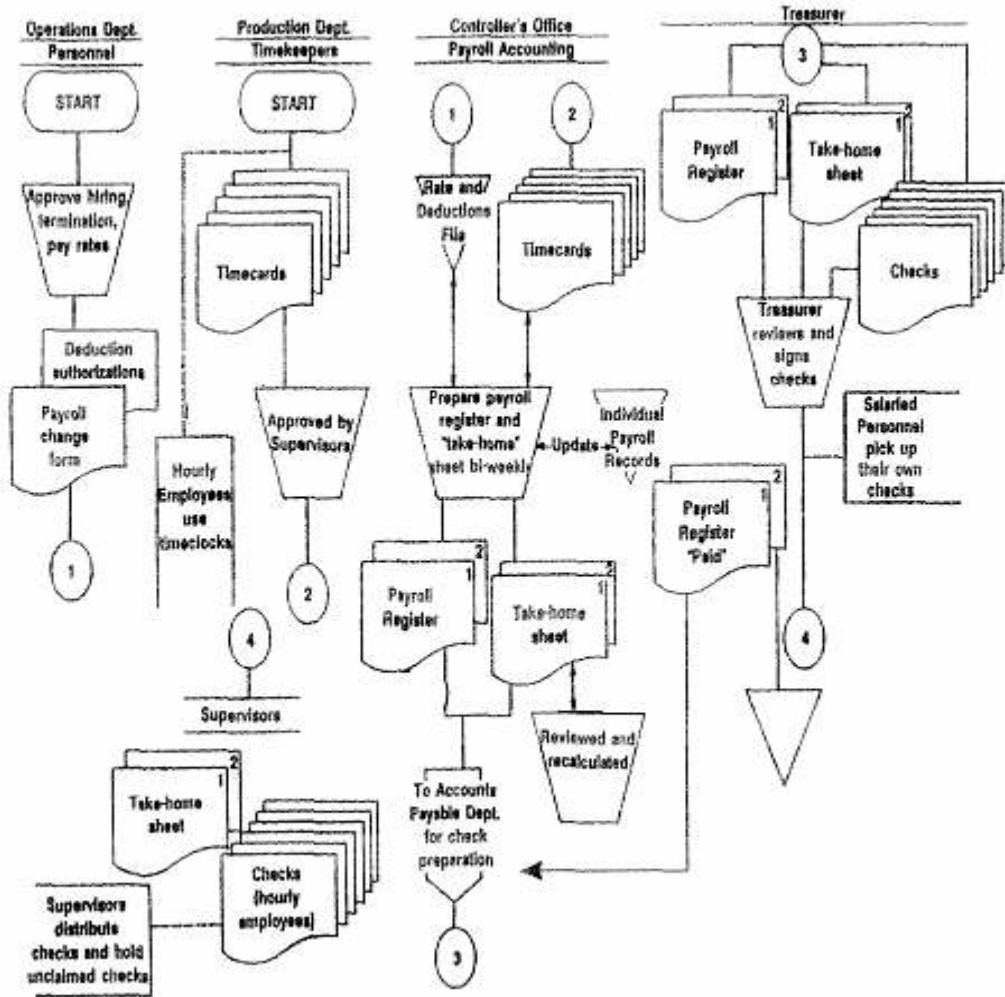
Karina

**Karina Ramirez**

Director, Internal Audit  
Apollo Shoes, Inc.

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Apollo Shoes, Inc.  
 Payroll Flowchart  
 December 31, 2007



**Apollo Shoes, Inc**  
**Employee Earning Statement**  
**Through 12/28/2007**

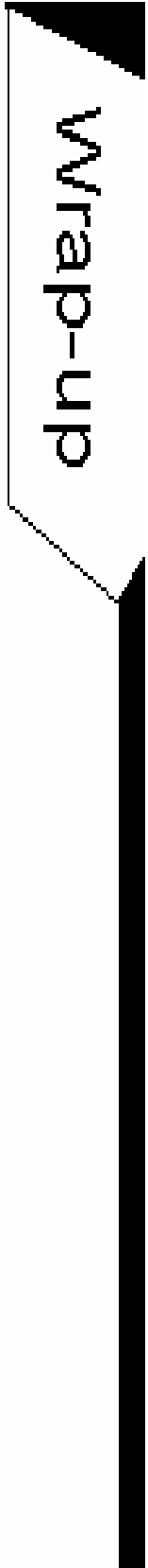
**Warehouse Salaries**

<u>EE ID</u>	<u>YTD Annual</u>	<u>Pay Scale</u>	<i>Employee Withholding</i>					<i>Employer Withholding</i>					<u>Total</u>
			<u>Gross</u>	<u>6.20% FICA</u>	<u>1.45% Medicare</u>	<u>15% Fed Tax</u>	<u>7% Maine Tax</u>	<u>Net Pay</u>	<u>3.80% SUTA</u>	<u>0.80% FUTA</u>	<u>6.20% FICA</u>	<u>1.45% Medicare</u>	
1005	103,768.80	Hourly	3,991.11	0.00	57.87	598.67	279.38	3,055.19	0.00	0.00	0.00	57.87	57.87
1011	127,635.69	Hourly	4,909.07	0.00	71.18	736.36	343.63	3,757.89	0.00	0.00	0.00	71.18	71.18
1013	77,275.53	Hourly	2,972.14	184.27	43.10	445.82	208.05	2,090.90	0.00	0.00	184.27	43.10	227.37
1018	82,016.43	Hourly	3,154.48	195.58	45.74	473.17	220.81	2,219.18	0.00	0.00	195.58	45.74	241.32
1022	85,955.34	Hourly	3,305.97	204.97	47.94	495.90	231.42	2,325.75	0.00	0.00	204.97	47.94	252.91
1023	127,360.26	Hourly	4,898.47	0.00	71.03	734.77	342.89	3,749.78	0.00	0.00	0.00	71.03	71.03
1025	79,650.15	Hourly	3,063.47	189.93	44.42	459.52	214.44	2,155.15	0.00	0.00	189.93	44.42	234.36
1029	94,284.72	Hourly	3,626.34	224.83	52.58	543.95	253.84	2,551.13	0.00	0.00	224.83	52.58	277.41
1031	118,798.65	Hourly	4,569.18	0.00	66.25	685.38	319.84	3,497.71	0.00	0.00	0.00	66.25	66.25
1034	127,361.70	Hourly	4,898.53	0.00	71.03	734.78	342.90	3,749.82	0.00	0.00	0.00	71.03	71.03
1035	79,689.24	Hourly	3,064.97	190.03	44.44	459.75	214.55	2,156.21	0.00	0.00	190.03	44.44	234.47
1037	122,823.75	Hourly	4,723.99	0.00	68.50	708.60	330.68	3,616.21	0.00	0.00	0.00	68.50	68.50
1044	116,722.47	Hourly	4,489.33	0.00	65.10	673.40	314.25	3,436.58	0.00	0.00	0.00	65.10	65.10
1048	130,548.09	Hourly	5,021.08	0.00	72.81	753.16	351.48	3,843.64	0.00	0.00	0.00	72.81	72.81
1055	94,627.47	Hourly	3,639.52	225.65	52.77	545.93	254.77	2,560.40	0.00	0.00	225.65	52.77	278.42
1057	103,424.01	Hourly	3,977.85	0.00	57.68	596.68	278.45	3,045.04	0.00	0.00	0.00	57.68	57.68
1063	125,699.67	Hourly	4,834.60	0.00	70.10	725.19	338.42	3,700.89	0.00	0.00	0.00	70.10	70.10
1069	111,764.49	Hourly	4,298.63	0.00	62.33	644.80	300.90	3,290.60	0.00	0.00	0.00	62.33	62.33
1080	122,065.47	Hourly	4,694.83	0.00	68.07	704.22	328.64	3,593.89	0.00	0.00	0.00	68.07	68.07
1082	121,541.55	Hourly	4,674.68	0.00	67.78	701.20	327.23	3,578.46	0.00	0.00	0.00	67.78	67.78
1084	129,178.44	Hourly	4,968.40	0.00	72.04	745.26	347.79	3,803.31	0.00	0.00	0.00	72.04	72.04
1091	110,736.18	Hourly	4,259.08	0.00	61.76	638.86	298.14	3,260.33	0.00	0.00	0.00	61.76	61.76
1092	168,946.20	Salary	6,497.93	0.00	94.22	974.69	454.86	4,974.17	0.00	0.00	0.00	94.22	94.22
1094	86,215.44	Hourly	3,315.98	205.59	48.08	497.40	232.12	2,332.79	0.00	0.00	205.59	48.08	253.67
1095	108,568.32	Hourly	4,175.70	0.00	60.55	626.36	292.30	3,196.50	0.00	0.00	0.00	60.55	60.55
1096	131,450.01	Hourly	5,055.77	0.00	73.31	758.37	353.90	3,870.19	0.00	0.00	0.00	73.31	73.31
1097	145,018.08	Hourly	5,577.62	0.00	80.88	836.64	390.43	4,269.67	0.00	0.00	0.00	80.88	80.88
1098	128,599.74	Hourly	4,946.14	0.00	71.72	741.92	346.23	3,786.27	0.00	0.00	0.00	71.72	71.72
1099	122,058.51	Hourly	4,694.56	0.00	68.07	704.18	328.62	3,593.68	0.00	0.00	0.00	68.07	68.07
1100	89,699.61	Hourly	3,449.99	213.90	50.02	517.50	241.50	2,427.06	0.00	0.00	213.90	50.02	263.92
1108	88,116.66	Hourly	3,389.10	210.12	49.14	508.37	237.24	2,384.23	0.00	0.00	210.12	49.14	259.27
1110	122,899.41	Hourly	4,726.90	0.00	68.54	709.04	330.88	3,618.44	0.00	0.00	0.00	68.54	68.54
1117	94,272.42	Hourly	3,625.86	224.80	52.58	543.88	253.81	2,550.79	0.00	0.00	224.80	52.58	277.38
1125	83,564.49	Hourly	3,214.02	199.27	46.60	482.10	224.98	2,261.06	0.00	0.00	199.27	46.60	245.87
1126	103,317.78	Hourly	3,973.76	0.00	57.62	596.06	278.16	3,041.91	0.00	0.00	0.00	57.62	57.62
1127	116,309.88	Hourly	4,473.46	0.00	64.87	671.02	313.14	3,424.43	0.00	0.00	0.00	64.87	64.87
1131	91,954.83	Hourly	3,536.72	219.28	51.28	530.51	247.57	2,488.09	0.00	0.00	219.28	51.28	270.56
1133	111,540.06	Hourly	4,290.00	0.00	62.21	643.50	300.30	3,284.00	0.00	0.00	0.00	62.21	62.21
1138	92,049.85	Hourly	3,540.38	219.50	51.34	531.06	247.83	2,490.66	0.00	0.00	219.50	51.34	270.84
1143	110,120.16	Hourly	4,235.39	0.00	61.41	635.31	296.48	3,242.19	0.00	0.00	0.00	61.41	61.41
1147	106,821.72	Hourly	4,108.53	0.00	59.57	616.28	287.60	3,145.08	0.00	0.00	0.00	59.57	59.57
1149	119,472.63	Hourly	4,595.10	0.00	66.63	689.27	321.66	3,517.55	0.00	0.00	0.00	66.63	66.63
1155	106,791.66	Hourly	4,107.37	0.00	59.56	616.11	287.52	3,144.19	0.00	0.00	0.00	59.56	59.56
<b>Total</b>	<b>4,720,715.56</b>		<b>181,565.98</b>	<b>2,907.73</b>	<b>2,632.71</b>	<b>27,234.90</b>	<b>12,709.62</b>	<b>136,081.03</b>	<b>0.00</b>	<b>0.00</b>	<b>2,907.73</b>	<b>2,632.71</b>	<b>5,540.44</b>

Administrative Salaries

1006	147,544.74	Hourly	5,674.80	0.00	82.28	851.22	397.24	4,344.06	0.00	0.00	0.00	82.28	82.28
1007	205,557.27	Salary	7,906.05	0.00	114.64	1,185.91	553.42	6,052.08	0.00	0.00	0.00	114.64	114.64
1008	126,438.21	Salary	4,863.01	0.00	70.51	729.45	340.41	3,722.63	0.00	0.00	0.00	70.51	70.51
1009	114,147.12	Hourly	4,390.27	0.00	63.66	658.54	307.32	3,360.75	0.00	0.00	0.00	63.66	63.66
1010	157,465.71	Salary	6,056.37	0.00	87.82	908.46	423.95	4,636.15	0.00	0.00	0.00	87.82	87.82
1012	185,026.50	Salary	7,116.40	0.00	103.19	1,067.46	498.15	5,447.61	0.00	0.00	0.00	103.19	103.19
1014	96,849.63	Hourly	3,724.99	230.95	54.01	558.75	260.75	2,620.53	0.00	0.00	230.95	54.01	284.96
1016	113,542.59	Hourly	4,367.02	0.00	63.32	655.05	305.69	3,342.96	0.00	0.00	0.00	63.32	63.32
1017	98,373.84	Hourly	3,783.61	0.00	54.86	567.54	264.85	2,896.35	0.00	0.00	0.00	54.86	54.86
1020	164,490.00	Salary	6,326.54	0.00	91.73	948.98	442.86	4,842.97	0.00	0.00	0.00	91.73	91.73
1024	219,534.30	Salary	8,443.63	0.00	122.43	1,266.54	591.05	6,463.60	0.00	0.00	0.00	122.43	122.43
1026	103,302.45	Hourly	3,973.17	0.00	57.61	595.98	278.12	3,041.46	0.00	0.00	0.00	57.61	57.61
1027	173,850.00	Salary	6,686.54	0.00	96.95	1,002.98	468.06	5,118.55	0.00	0.00	0.00	96.95	96.95
1028	133,880.04	Hourly	5,149.23	0.00	74.66	772.38	360.45	3,941.74	0.00	0.00	0.00	74.66	74.66
1030	126,714.36	Salary	4,873.63	0.00	70.67	731.04	341.15	3,730.76	0.00	0.00	0.00	70.67	70.67
1032	119,813.16	Hourly	4,608.20	0.00	66.82	691.23	322.57	3,527.58	0.00	0.00	0.00	66.82	66.82
1033	202,068.83	Salary	7,771.88	0.00	112.69	1,165.78	544.03	5,949.37	0.00	0.00	0.00	112.69	112.69
1038	106,509.30	Hourly	4,096.51	0.00	59.40	614.48	286.76	3,135.88	0.00	0.00	0.00	59.40	59.40
1039	95,184.00	Hourly	3,660.92	226.98	53.08	549.14	256.26	2,575.46	0.00	0.00	226.98	53.08	280.06
1040	178,179.33	Salary	6,853.05	0.00	99.37	1,027.96	479.71	5,246.01	0.00	0.00	0.00	99.37	99.37
1042	235,207.23	Salary	9,046.43	0.00	131.17	1,356.96	633.25	6,925.04	0.00	0.00	0.00	131.17	131.17
1043	195,113.52	Salary	7,504.37	0.00	108.81	1,125.65	525.31	5,744.59	0.00	0.00	0.00	108.81	108.81
1045	146,509.47	Hourly	5,634.98	0.00	81.71	845.25	394.45	4,313.58	0.00	0.00	0.00	81.71	81.71
1046	222,825.09	Salary	8,570.20	0.00	124.27	1,285.53	599.91	6,560.48	0.00	0.00	0.00	124.27	124.27
1047	177,904.74	Salary	6,842.49	0.00	99.22	1,026.37	478.97	5,237.93	0.00	0.00	0.00	99.22	99.22
1049	185,038.71	Salary	7,116.87	0.00	103.19	1,067.53	498.18	5,447.97	0.00	0.00	0.00	103.19	103.19
1050	214,066.50	Salary	8,233.33	0.00	119.38	1,235.00	576.33	6,302.61	0.00	0.00	0.00	119.38	119.38
1052	199,654.68	Salary	7,679.03	0.00	111.35	1,151.85	537.53	5,878.29	0.00	0.00	0.00	111.35	111.35
1053	195,261.00	Salary	7,510.04	0.00	108.90	1,126.51	525.70	5,748.93	0.00	0.00	0.00	108.90	108.90
1054	78,526.50	Salary	3,020.25	187.26	43.79	453.04	211.42	2,124.75	0.00	0.00	187.26	43.79	231.05
1056	81,561.82	Salary	3,136.99	194.49	45.49	470.55	219.59	2,206.87	0.00	0.00	194.49	45.49	239.98
1058	160,954.08	Salary	6,190.54	0.00	89.76	928.58	433.34	4,738.86	0.00	0.00	0.00	89.76	89.76
1059	146,297.53	Hourly	5,626.83	0.00	81.59	844.02	393.88	4,307.34	0.00	0.00	0.00	81.59	81.59
1060	249,390.42	Salary	9,591.94	0.00	139.08	1,438.79	671.44	7,342.63	0.00	0.00	0.00	139.08	139.08
1061	105,141.36	Hourly	4,043.90	0.00	58.64	606.58	283.07	3,095.60	0.00	0.00	0.00	58.64	58.64
1065	135,983.34	Hourly	5,230.13	0.00	75.84	784.52	366.11	4,003.66	0.00	0.00	0.00	75.84	75.84
1067	165,144.33	Salary	6,351.71	0.00	92.10	952.76	444.62	4,862.23	0.00	0.00	0.00	92.10	92.10
1070	118,654.23	Hourly	4,563.62	0.00	66.17	684.54	319.45	3,493.45	0.00	0.00	0.00	66.17	66.17
1071	170,887.71	Salary	6,572.60	0.00	95.30	985.89	460.08	5,031.33	0.00	0.00	0.00	95.30	95.30
1073	647,310.74	Salary	24,896.57	0.00	361.00	3,734.49	1,742.76	19,058.32	0.00	0.00	0.00	361.00	361.00
1074	199,111.17	Salary	7,658.12	0.00	111.04	1,148.72	536.07	5,862.29	0.00	0.00	0.00	111.04	111.04
1076	98,425.71	Hourly	3,785.60	0.00	54.89	567.84	264.99	2,897.88	0.00	0.00	0.00	54.89	54.89
1077	79,254.27	Salary	3,048.24	188.99	44.20	457.24	213.38	2,144.44	0.00	0.00	188.99	44.20	233.19
1078	138,738.18	Hourly	5,336.08	0.00	77.37	800.41	373.53	4,084.77	0.00	0.00	0.00	77.37	77.37
1081	114,289.35	Hourly	4,395.74	0.00	63.74	659.36	307.70	3,364.94	0.00	0.00	0.00	63.74	63.74
1083	184,532.25	Salary	7,097.39	0.00	102.91	1,064.61	496.82	5,433.06	0.00	0.00	0.00	102.91	102.91
1085	67,114.63	Salary	2,581.33	160.04	37.43	387.20	180.69	1,815.97	0.00	0.00	160.04	37.43	197.47
1087	195,261.00	Salary	7,510.04	0.00	108.90	1,126.51	525.70	5,748.93	0.00	0.00	0.00	108.90	108.90
1088	81,693.59	Salary	3,142.06	194.81	45.56	471.31	219.94	2,210.44	0.00	0.00	194.81	45.56	240.37
1089	119,868.33	Hourly	4,610.32	0.00	66.85	691.55	322.72	3,529.20	0.00	0.00	0.00	66.85	66.85
1090	1,100,000.00	Salary	42,307.69	0.00	613.46	6,346.15	2,961.54	32,386.54	0.00	0.00	0.00	613.46	613.46
1107	122,305.86	Salary	4,704.07	0.00	68.21	705.61	329.29	3,600.97	0.00	0.00	0.00	68.21	68.21
1119	219,314.95	Salary	8,435.19	0.00	122.31	1,265.28	590.46	6,457.14	0.00	0.00	0.00	122.31	122.31
1121	228,518.80	Salary	8,789.18	0.00	127.44	1,318.38	615.24	6,728.12	0.00	0.00	0.00	127.44	127.44
1141	144,213.03	Salary	5,546.66	0.00	80.43	832.00	388.27	4,245.96	0.00	0.00	0.00	80.43	80.43
1163	1,320,000.00	Salary	50,769.23	0.00	736.15	7,615.38	3,553.85	38,863.85	0.00	0.00	0.00	736.15	736.15
1280	1,650,000.00	Salary	63,461.54	0.00	920.19	9,519.23	4,442.31	48,579.81	0.00	0.00	0.00	920.19	920.19
1310	2,750,000.00	Salary	105,769.23	0.00	1,533.65	15,865.38	7,403.85	80,966.35	0.00	0.00	0.00	1,533.65	1,533.65

1330	235,000.00	Salary	9,038.46	0.00	131.06	1,355.77	632.69	6,918.94	0.00	0.00	0.00	131.06	131.06
1340	449,679.93	Salary	17,295.38	0.00	250.78	2,594.31	1,210.68	13,239.61	0.00	0.00	0.00	250.78	250.78
Total	16,197,225.43		605,674.83	1,383.52	8,782.28	90,851.22	42,397.24	462,260.56	0.00	0.00	1,383.52	8,782.28	10,165.80
Grand Total	20,917,940.99		787,240.81	4,291.25	11,414.99	118,086.12	55,106.86	598,341.59	0.00	0.00	4,291.25	11,414.99	15,706.24



Date: Wed, 13 FEB 2008 11:27:00 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Revenue and Expenses

Well, things are coming to a close. The last thing that we have to do is to **look at revenues (R-I) and expenses (X-I)**.

We can tie down most of the numbers from the work that we have done previously. For example, we can feel pretty good about the revenue that was confirmed in the accounts receivable testing (**C-series**). Use analytic procedures on returns and warranty expense to make sure that they are reasonable. They should be comparable to last year's numbers compared to sales.

For expenses that we have not examined already:

1. **Use analytic procedures for those that should be comparable to those in the previous year.** For example, for the payroll taxes, compare last year's numbers as a percentage (ratio) of payroll expense and compare to this year's ratio. Cost of Goods Sold should remain relatively constant as a percentage of sales, unless suppliers' costs have gone up or sales prices have changed. The same should be true for freight and warranty expenses.
2. For those expenses subject to management discretion, **double-check the board of directors' minutes for explanations of fluctuations.** For example, I know that the company severely cut back on Research and Development during the current year.
3. Other information:
  - a. Legal expense was confirmed directly in the attorney's letter.
  - b. Have they recorded our fee for the 2007 audit?
  - c. With Apollo's extensive use of e-mail now, I think postage and phone expenses are down from last year.
  - d. Has interest expense been accrued?

**Apollo Shoes, Inc.**  
**Schedule of Revenues**  
**For Year Ended 12/31/2007**

**R - 1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Unaudited Balance 12/31/2007</b>	<b>Comments</b>
40000	Sales	\$246,172,918.44	\$245,213,452.88	
41000	Sales Returns	(\$4,497,583.20)	(\$13,600,220.89)	
42000	Warranty Expense	(\$1,100,281.48)	(\$1,158,128.47)	
	<b>Net Sales</b>	<b>\$240,575,053.76</b>	<b>\$230,455,103.52</b>	
45000	Income from Investments	\$0.00	\$1,426,089.31	
46000	Interest Income	\$204,302.81	\$131,881.46	
47000	Miscellaneous Income	\$0.00	\$2,145,000.00	
		<b>\$240,779,356.57</b>	<b>\$234,158,074.29</b>	



**Apollo Shoes, Inc.**  
**Schedule of Expenses**  
**For Year Ended 12/31/2007**

**X - 1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Unaudited Balance 12/31/2007</b>	<b>Comments</b>
50000	Cost of Goods Sold	\$141,569,221.61	\$130,246,645.26	
57500	Freight	\$4,302,951.46	\$4,236,263.09	
60000	Advertising Expense	\$897,140.01	\$986,854.01	
61000	Auto Expenses	\$208,974.39	\$214,502.80	
62000	Research and Development	\$31,212,334.17	\$212,864.02	
64000	Depreciation Expense	\$133,000.00	\$446,000.00	
64500	Warehouse Salaries	\$4,633,383.82	\$4,720,715.56	
65000	Property Tax Expense	\$80,495.32	\$84,332.45	
66000	Legal and Professional Expense	\$3,605,133.96	\$1,902,224.45	
67000	Bad Debt Expense	\$1,622,425.99	\$0.00	
68000	Insurance Expense	\$853,942.65	\$36,106.92	
70000	Maintenance Expense	\$61,136.04	\$49,502.87	
70100	Utilities	\$135,642.99	\$137,332.18	
70110	Telephone Expense	\$76,373.78	\$52,599.02	
70120	Postage Expense	\$128,033.21	\$77,803.61	
71000	Miscellaneous Office Expense	\$17,023.27	\$24,891.82	
72000	Payroll Tax Exp	\$1,550,989.06	\$1,577,811.85	
73000	Pension/Profit-Sharing Plan Ex	\$3,000,000.00	\$3,300,000.00	
74000	Rent or Lease Expense	\$2,603,485.87	\$1,203,574.00	
77500	Administrative Wages Expense	\$16,875,305.98	\$16,197,225.43	
78000	Interest Expense	\$875,000.00	\$2,591,736.50	
78500	Income Tax Expense - Federal	\$2,365,000.00	\$13,069,000.00	
78510	Income Tax Expense - State	\$429,000.00	\$2,241,000.00	
89000	Other Expense	\$19,172,000.00	\$0.00	
		<b>\$236,407,993.58</b>	<b>\$183,608,985.84</b>	

**Apollo Shoes, Inc.**  
**Stockholders' Equity Lead Schedule**  
**For Year Ended 12/31/2007**

**Q-1**

<i>Prepared by</i>	
<i>Reviewed by</i>	

**PBC**

<b>Acct #</b>	<b>Account Title</b>	<b>(Audited) Balance 12/31/2006</b>	<b>Net Income/ Additions</b>	<b>Repurchases/ Dividends</b>	<b>Unaudited Balance 12/31/2007</b>
39003	Common Stock	\$8,105,000.00			\$8,105,000.00
39004	Paid-in Capital	\$7,743,000.00			\$7,743,000.00
39005	Retained Earnings	\$6,270,483.64			\$6,270,483.64
		\$22,118,483.64	\$0.00	\$0.00	\$22,118,483.64

Date: Fri, 15 FEB 2008 11:27:00 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Subsequent Events

Well this audit turned out to be a little more interesting than we initially expected, didn't it?  
Hope you didn't run into too much trouble when you crossed the picket lines.

I've attached the last set of minutes from Apollo's Board of Directors. **You need to prepare a memo (to be placed in the A series with the financial statements) on these subsequent events and how you believe we should address them.** Include the following in your memo:

1. An explanation of the reasons subsequent events must be disclosed in the financial statements even though they occurred after the balance sheet date. Include in your explanation the difference between the disclosure of Type I and Type II subsequent events.
2. Give the audit procedures that, in addition to verbal inquiry and the client's representation letter, should be performed as part of the subsequent event audit work.
3. Discuss the accounting and/or disclosure, if any, you would recommend for the subsequent events discussed in the minutes, stating all details that should be disclosed.

I've also attached the letter that we received from Apollo's attorney.

DW

MEETING HELD FEBRUARY 13, 2008

Larry Lancaster, chairman of the board, presided over the second meeting of the year, beginning at 3 P.M. All members were present:

Larry Lancaster

Josephine Mandeville\*\*

Ivan Gorr\*

Harry Baker\*

Fritz Brenner\*\*

Theodore Horstmann\*\*

Eric Unum

\* Outside director \*\* Outside director and member of the audit committee.

The minutes of the January 3 meeting were reviewed and approved.

Saul Panzer and King Stout, Apollo's top 2 salesmen, presented a proposal for building and marketing custom-made PrivyShoes, a novelty item for water skiers. Since a plan to build and market similar shoes for marathon runners had not been successful, the board tabled the proposal for the time being.

Sue Fultz reported that depositions were ongoing in the litigation action discussed at the January 3 meeting. No further information was available.

Eric Unum reported on Mall-Warts bankruptcy proceedings. Sales have decreased significantly as a result of the loss of Apollo's largest customer. Plans were discussed to increase sales to Apollo's other customers.

In the meantime, as a result of reduced sales, operations activity was curtailed in mid-January and some workers were laid off.

On February 8, all the remaining workers went on strike. To date the strike is unsettled.

Meeting ended 7:30 P.M.

/s/ Jeff Chesnut, Secretary

Perley Stebbins, Esquire  
Lawyers "R" Us, LLC  
Augusta Bangor Jay Shoetown

February 15, 2008

Anderson, Olds, and Watershed, CPAs, LLC  
Shoetown, ME 00001

Dear Sir or Madam:

I write to respond to your letter of audit inquiry regarding Apollo Shoes, Inc. With respect to this client, my firm was engaged to litigate three cases. Two cases were ultimately dismissed during 2007, resulting in no legal liability. While the remaining case is in the preliminary deposition stage, I will try to provide details of the litigation below:

On January 5, 2008, a class action suit alleging gross negligence and violation of implied warranty of merchantability was brought against Apollo for \$12,000,000. The action stems from the use of one of the Company's products (the *Spotlight*) in an aquatic environment, specifically the 1st Annual Swiss Aquatic Games held in January 2007. During the athletic competition, immersion of the company's products in water allegedly caused severe electrical shock to the wearer(s), purportedly resulting in numbness in the extremities and loss of all leg hair. The action involves unique characteristics wherein authoritative legal precedents bearing directly on the plaintiff's claims do not seem to exist. While we believe the plaintiff will have serious problems establishing Apollo's liability, if the plaintiff is successful, the damages awarded may be substantial. While the company intends to vigorously defend itself in this action, it is reasonably possible that the loss could reach \$10,000,000 after legal fees are considered.

As of December 31, our billed, but unpaid, legal fees resulting from the two cases dismissed in 2007 amounted to \$1,902,224.45.

Please feel free to contact me should you have any additional questions on these matters.

Sincerely,

*Perley Stebbins*

Perley Stebbins, Esq.

Date: Wed, 20 FEB 2008 07:15:25 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Management Representation letter

**You need to draft a proposed management representation letter** to be prepared on Apollo's letterhead stationery for Arnold to review when he returns. The letter is to be addressed to Anderson, Olds, & Watershed from Apollo's CEO and CFO. Include all the required items and any additional points you think are necessary based on the following (see SAS 85, AU 333):

- We know of no frauds or violations of laws by either management or employees.
- There is one legal matter covered in the attorney's letter which has been received.
- There are several subsequent events that the client had disclosed to you.
- There are no capital stock repurchase options, compensating balances, or agreements to repurchase assets previously sold.
- All material adjustments have been made to the financial statements.

Remember, we draft the letter; management has to sign it. That will be Arnold's job – to get them to sign the letter. He will also have to be the bearer of the bad news --- all the adjustments that we have found.

**You need to also draft the management certification statement required by Sarbanes-Oxley.** You can find a copy in last year's 10-K.

DW

Date: Fri, 22 FEB 2008 10:02:09 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Apollo Adjusting Entries

Well we are nearing the end of the Apollo Shoes engagement. To wrap up the workpapers, you need to do the following tasks:

**1. Propose the adjustments to the financial statements you believe necessary for Arnold to give the standard unqualified report on the Apollo Shoes financial statements.**

- a. Review the Apollo cash audit for possible adjustments.
- b. Review the search for unrecorded liabilities audit work for possible adjustments. (Be careful to determine the proper accounts for adjustment when inventory is included or excluded from the physical count and compilation. "Included" means that the inventory cost is already in the general ledger balance shown in the trial balance. When the previous recorded inventory was adjusted to match the physical count, the adjustment was to cost of goods sold.)
- c. Review the property, plant, and equipment and prepaids audit work for possible adjustments.
- d. Review the liabilities audit work for possible adjustments.
- e. Review the findings about subsequent events and propose adjusting journal entries if any.
- f. Review the findings from the various expense analyses and your proposed adjusting journal entries, if any.
- g. Adjust the income tax expense to reflect an income tax rate of 40 percent for all income (and set up a corresponding income tax payable). The tax return and financial statement income are identical, so there are no deferred or prepaid income taxes resulting from timing differences. The tax department "codeheads" will take a closer look when they prepare the corporate returns.

**2. Prepare a "scoresheet" working paper for the proposed adjusting journal entries.**

3. While we will tell them of everything that we have found, it will be their responsibility to make or not make the entries. Remember to keep materiality in mind. Arnold will fight hardest for the adjustments that will materially affect the financial statements.

Date: Fri, 22 FEB 2008 10:15:35 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Analysis of Accounting of Apollo Estimates

I forgot to include this in my last e-mail:

The company incorporated several estimates in its current year financial statements. Auditing standards (specifically, SAS 99) require consideration of individual estimates and consideration of all estimates taken together. The audit objective is to determine whether the estimates contribute a material bias to the measurement of income. I know that Apollo uses at least three estimates that affect bottom line numbers:

- **Allowance for Doubtful Accounts Receivable.** Has the company reserved enough for uncollectible accounts?
- **Depreciable Assets.** The company acquired and placed in service new equipment during the year. Depreciation was calculated on a straight-line basis, with zero salvage, for periods specified by company policy. Are the useful lives appropriate and salvage values reasonable?
- **Inventory Obsolescence.** Has Apollo reserved an appropriate amount for potential obsolescence in its inventory? Is there inventory that has little or no marketable value?
- **Warranty Expense.** Has Apollo reserved an appropriate amount for warranty expense? Have the amounts (especially as a percentage of sales) been stable or changed significantly?

**Write a brief one-page memo analyzing management's estimates described above to put in the A-series workpapers.** For each one, determine (calculate) the auditor's "range of reasonableness estimate." Do the company's estimates produce a bias toward overstatement or understatement of income (before income taxes and after income taxes)? Explain the relative size of the bias amounts in comparison to (1) income in the unaudited financial statements, and (2) income in the adjusted financial statements, taking the proposed adjustments into account.

DW

P.S. I have kept Arnold posted on what is going on at Apollo. I made him promise to throw a nice end-of-audit party when we are done.



Date: Thu, 28 FEB 2008, 00:42:35 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Drafting Financial Statements

Well, Arnold spoke with Larry Lancaster about your proposed adjustments in a four-hour meeting. They (Apollo) admitted they missed some adjustments at the end of the year and have (grudgingly) agreed to make all of the entries except the ones related to the Mall-Warts account (i.e., those related to the December sale and any adjustment to the Allowance for Doubtful Accounts). Larry is arguing that even though Mall-Warts is in bankruptcy, they will come out of it and be able to pay Apollo the amounts owed, including the questionable December sale. Arnold and I disagree.

- 1. Prepare the balance sheet as of December 31, 2007, and the income statement for the year ended December 31, 2007 assuming Apollo doesn't adjust sales and accounts receivable for the questionable December sale. (Remember that even though we are drafting the statements; Apollo's management is responsible for them.)**
- 2. Prepare a cash flow statement for the year ended December 31, 2007.**
- 3. Identify information you believe should be included in notes to the financial statements. Draft the notes. You can use last year's as a guide.**
4. Also, you may want to **draft any management letter comments on anything you believe Apollo Shoes can do better from an operational economy and/or efficiency perspective, or methods of strengthening their internal controls.** Even though we do not intend to be Apollo's auditor next year, we want to maintain our professionalism.

All of these workpapers should be in the *A-series* workpapers.

DW

Date: Fri, 29 FEB 2008 06:14:29 +0000  
From: "Darlene Wardlaw" <DW@aow.cpa>  
Subject: Drafting the audit report

One last thing to do and then we can wash our hands of the whole thing. **You need to draft an audit report to go with the financial statements you drafted (put it in the A-series workpapers).**

1. You should date the report as of the end of fieldwork next week (March 7, 2008).
2. Remember that we didn't audit Apollo last year, so we will probably need to refer to the "other auditors" who audited the previous year's financial statements.
3. Adjust the report to reflect the fact that Apollo didn't adjust its accounts receivable/allowance/sales for the Mall-Warts problems.
4. What do you think about a going-concern disclosure? We will probably need a memo in the workpapers (*A-series*) addressing this issue and discussing the reasons why we should or shouldn't give them a going concern paragraph.
5. Any subsequent events that need disclosure?