

Principles of Auditing & Other Assurance Services

2024 Release

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PRINCIPLES OF AUDITING & OTHER ASSURANCE SERVICES, 2024 RELEASE

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Preface

The 2024 Release of *Principles of Auditing & Other Assurance Services* provides a carefully balanced presentation of auditing theory and practice. Written in a clear and understandable manner, it is particularly appropriate for students who have had limited or no audit experience. The approach is to integrate auditing material with that of previous accounting financial, managerial, and systems courses.

The text's first nine chapters emphasize the philosophy and environment of the auditing profession, with special attention paid to the nature and economic purpose of auditing, auditing standards, professional conduct, legal liability, audit evidence, audit planning, consideration of internal control, and audit sampling. Chapters 10 through 16 (the "procedural chapters") deal with internal control and obtaining evidence about the various financial statement accounts and classes of transactions, emphasizing a risk-based approach to selecting appropriate auditing procedures. Chapter 17 presents the auditors' reporting responsibilities when performing financial statement audits. Chapter 18 provides detailed guidance on integrated audits of public companies performed in accordance with PCAOB and SEC requirements under the Sarbanes-Oxley Act of 2002. Chapters 19 and 20 present the auditors' reporting responsibilities when performing other attestation and accounting services, such as reviews and compilations of financial statements and performing services on prospective financial statements. Chapter 21 presents coverage of internal, compliance, and operational auditing.

The text is well suited for an introductory one-semester or one-quarter auditing course. Alternatively, it is appropriate for a two-course auditing sequence that covers the material in greater detail. For example, an introductory course might emphasize Chapters 1 through 10, 16, and 17. A second course may include coverage of the other procedural chapters (Chapters 11 through 15); integrated audits (Chapter 18); other attestation and accounting services; and internal, operational, and compliance auditing (Chapters 19, 20, and 21). With two courses, the instructor might wish to consider covering portions of Chapter 9 on sampling in the second course, with or without audit software. Overall, the text and supporting materials provide:

1. **A balanced presentation.** The text provides a carefully balanced presentation of auditing and assurance theory and practice. The concepts are written in a clear, concise, and understandable manner. Real company examples are integrated throughout the text to bring this material to life. Finally, Keystone Computers & Networks Inc., the text's illustrative audit case, is integrated into selected chapters, providing students with hands-on audit experience.
2. **Organization around balance sheet accounts emphasized in previous accounting courses.** Organizing the text around balance sheet accounts is a particularly straightforward and user-friendly way to address the risk assessment-based approach to auditing required by both U.S. and international auditing standards. These standards require an in-depth understanding of the audited company and its environment, a rigorous assessment of the risks of where and how the financial statements could be materially misstated, and an improved linkage between the auditors' assessed risks and the particulars of audit procedures performed in response to those risks. Chapters 5 through 7 of the text describe the risk assessment approach in detail. Chapters 10 through 16 are aligned with the risk assessment approach presented in the professional standards. Accordingly, the suggested audit approach and procedures of the professional standards flow smoothly from the approach suggested in earlier chapters of the text. In short, our organization of the book facilitates student learning of the risk assessment process in a very straightforward manner. Also, although the text chapters are structured around balance sheet accounts, they thoroughly cover the various transaction cycles. For example, Chapter 11 provides detailed coverage of the revenue cycle.

3. **A cohesive connection from learning to career: Data analytics** skills are a rapidly expanding requirement in the field of auditing. To prepare students, data analytics is addressed in Appendix 6A and throughout this text, incorporating exercises and problems that drive critical thinking and analysis. In conjunction, we incorporate software to drive these employability skills through the use of Excel, Tableau, and IDEA software and with data analytics questions posed in Connect.
4. **CPA examination support.** The text's emphasis on current auditing standards, its many author-created objective questions (including document review simulations), and a partnership with UWorld CPA Review are all aimed at helping students pass the CPA exam. As discussed in detail in the following sections, this release has been revised to respond to changes in the CPA exam and includes a variety of simulations like the ones included on the CPA exam, with several now included in Connect.
5. **Strong student and instructor support.** Connect and its vast array of instructor and student resources provide a wealth of material to help keep students up-to-date.

We are confident that the 2024 Release of *Principles of Auditing & Other Assurance Services* will provide students with a clear perspective of today's auditing environment.

O. Ray Whittington
Kurt Pany

Key Features of the Book

The first seven chapters of the text emphasize the philosophy and environment of the profession, with special attention paid to the nature and economic purpose of auditing and assurance services, professional standards, professional conduct, legal liability, audit evidence, audit planning, and consideration of internal control.

Chapter 1: Emphasizes the role of the public accountant, the structure of CPA firms, and the various types of audits and auditors. It also introduces the important concept of corporate and includes a brief history of the auditing profession, including up-to-date of the Sarbanes-Oxley Act of 2002 and the Public Company Accounting Oversight Board.

Chapter 2: Includes detailed coverage of the various professional standards underlying audits and other attestation services. Coverage of engagement quality reviews and inspections has been expanded. Also included are up-to-date introductory overviews of both public company and nonpublic company audit reports.

Chapter 3: Updated to reflect the most recent AICPA and PCAOB requirements. This includes detailed coverage of the AICPA Code of Professional Conduct and research-oriented questions. Problems requiring an electronic search of the AICPA Code of Professional Conduct are included. Updated coverage includes responsibilities related to unpaid professional fees, independence when consulting on information systems services, and responsibilities related to a client's noncompliance with laws and regulations.

Chapter 4: Clear, concise coverage of CPA legal liability reviewed by legal scholar Professor Marianne Jennings of Arizona State University.

Chapters 5, 6, and 7: Material from the risk assessment standards is thoroughly integrated throughout.

Chapter 5: Includes a broad discussion of the nature of audit evidence, reflecting up-to-date coverage of both AICPA and PCAOB pronouncements. Updated coverage of data analytics as applied to auditing is also included.

Chapter 6: The risk assessment approach as applied to the audit process is concisely summarized. This chapter also includes a detailed discussion of the materiality concept and the audit of significant unusual transactions and significant risks.

Chapter 7: Discusses internal control and how it is considered in an audit of financial statements. The chapter includes a brief overview of the nature of an integrated audit (an audit of internal control integrated with an audit of the financial statements) required for certain public companies under PCAOB Auditing Standards, with more detailed coverage provided in Chapter 18. The chapter also includes a section on the audit requirements for that increasingly frequent situation in which a client outsources its data processing to a service organization. Finally, it presents the auditors' internal control communication responsibilities.

Audit Standards Updates Students in auditing need familiarity with auditing standards promulgated by the **AICPA's Auditing Standards Board and the Public Company Accounting Oversight Board**. Also, for many, familiarity with standards of the **International Auditing and Assurance Standards Board** is needed. While similar in most respects, key differences exist among these sets of standards. The text integrates discussions of the various standards, focusing on the differences, in a very readable manner.

CPA Exam Prep and Simulations The end-of-chapter exercises include a number of simulations similar to those on the **CPA exam**. These simulations include five document review simulations which are all related to the text's integrated case, Keystone Computers & Networks Inc. All simulations in the text are designed to help students both to learn the material presented and to prepare them to complete such questions on the **CPA Exam**. Many of the simulations are adapted from **CPA exam questions** released by the **AICPA**, and others were written by the authors to be similar to those released by the **AICPA**.

Data Analytics and Auditing Increasingly, collection of audit evidence is facilitated by the use of automated tools and techniques such as **Audit Data Analytics** that may enable auditors to aggregate and consider information obtained from multiple sources. Accordingly, the text has been revised to emphasize developments in this area.

- 1 The Role of the Public Accountant in the American Economy
- 2 Professional Standards
- 3 Professional Ethics
- 4 Legal Liability of CPAs
- 5 Audit Evidence and Documentation
- 6 Audit Planning, Understanding the Client, Assessing Risks, and Responding

Keystone Computers & Network Inc.: Illustrative Audit Case This feature has been updated in this release and illustrates audit methods and provides realistic, thought-provoking case exercises. Although each portion of the case is designed to stand alone, if used in combination, the case will help the student develop problemsolving skills in planning (Chapter 6), in considering internal control and testing account balances (Chapters 11 and 14), and in completing the audit (Chapter 16). The case incorporates the use of computerized accounting applications (both IDEA and Tableau) and also integrates the fundamentals of audit sampling from Chapter 9. Also, Document Review Simulations relating to Keystone are included in the problem material for Chapters 10, 11, 12, 14, and 17.

- 7** Internal Control
- 8** Consideration of Internal Control in an Information Technology Environment
- 9** Audit Sampling
- 10** Cash and Financial Investments
- 11** Accounts Receivable, Notes Receivable, and Revenue
- 12** Inventories and Cost of Goods Sold
- 13** Property, Plant, and Equipment: Depreciation and Depletion
- 14** Accounts Payable and Other Liabilities
- 15** Debt and Equity Capital
- 16** Auditing Operations and Completing the Audit
- 17** Auditors' Reports
- 18** Integrated Audits of Public Companies
- 19** Additional Assurance Services: Historical Financial Information
- 20** Additional Assurance Services: Other Information
- 21** Internal, Operational, and Compliance Auditing

Chapter 8: Emphasizes the impact of IT on audits. This chapter has been updated and continues to emphasize the suggestions by George Easton, PhD, Emeritus Professor of MIS, San Diego State University.

Chapter 9: The format of this chapter allows adopters flexibility in audit sampling coverage. The body of the chapter includes attributes sampling and an introduction of audit sampling for substantive tests. Following are stand-alone modules on (1) monetary unit sampling, (2) classical variables sampling, and (3) nonstatistical variable sampling. Any, all, or none of these modules may be selected for inclusion. The chapter concludes with the longstanding appendix on the audit risk model. Many of the problems may be solved either manually or electronically using Connect and generalized audit software.

Chapters 10 through 16: These “procedural chapters” deal with internal control and obtaining audit evidence for the various financial amounts. The chapters emphasize the risk-based approach stressed in AICPA, PCAOB, and international standards. Updated in these chapters are discussions of data analytical evidence-gathering techniques, and increased coverage of management review controls, which is an area of concern from PCAOB inspections.

Chapter 17: Provides both AICPA and PCAOB audit reporting requirements. It is designed to easily allow a comparison of those requirements (e.g., a comparison of key and critical audit matters).

Chapter 18: Reflects PCAOB auditing standards on the audit of internal control over financial reporting required as a part of integrated audits for public companies.

Chapter 19: Includes up-to-date coverage of financial statement preparation, compilation and review engagements, auditor reporting on statements prepared using a special purpose framework, and other changes due to the AICPA clarity standards.

Chapter 20: Discusses a variety of attestation and other assurance services. Detailed coverage is included on Trust Services and System and Organization Controls reports. Other assurance services are included at both the conceptual and practical levels.

Chapter 21: Includes a discussion of compliance auditing based on the suggestions of Mr. Norwood J. Jackson, former Deputy Controller, Office of Federal Management, U.S. Office of Management and Budget. It is updated for the Compliance Supplement as revised in 2019.

New to This Release

The 2024 Release has been revised to reflect the changes occurring in the accounting profession and in the CPA exam, as well as to generally update and improve the presentation of material, including

- **Reflecting Changes Related to the CPA Evolution Initiative (Initiative).** This Initiative is a joint effort of the American Institute of Certified Public Accountants (AICPA) and the National Association of State Boards of Accountancy (NASBA) to transform the CPA licensure model to recognize the rapidly changing skills and competencies accountants need today and will need in the future. The Initiative has led to changes that will be reflected both in academic accounting programs and in the CPA exam, including
 - A Proposed CPA Evolution Model Curriculum.
 - Modification of the CPA Exam effective in 2024.

The revision reflects author consideration of the completeness and adequacy of text audit coverage when compared to the Model Curriculum and the modified CPA Exam. Illustrations are described below.

- **“Ordinary” Revisions to Reflect Changes in Professional Standards and to Clarify Overall Presentation.** As with every release, professional standards changes are reflected as appropriate, and existing material is clarified.
- **Further Consideration of Single- or Multiple-Course Adoption.** While the text has long been used by some schools in both first and second auditing courses, its wide variety of topical coverage makes it particularly appropriate for such courses designed considering the Model Curriculum and the revised CPA Exam. Revisions have been made with the following consideration in mind; the text should be appropriate either for single- or multiple-course adoption.

More specific illustrations of 2024 Release text modifications include the following:

- **Description of the CPA Exam Format Change.** Chapter 1 describes the nature of changes made to the CPA Exam. Briefly, the exam consists of three required Core sections and one individually selected Discipline section. The three required Core sections are (1) Auditing and Attestation, (2) Financial Accounting and Reporting, and (3) Taxation and Regulation. The three Discipline sections, of which exam-takers select one, are (1) Business Analysis and Reporting, (2) Information Systems and Controls, and (3) Tax Compliance and Planning. Detailed content areas, particularly for auditing and attestation, are included throughout the text.
- **Risk Assessment.** AICPA Auditing Standards Board *Statement on Auditing Standards No. 145: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* provides CPAs with additional guidance on assessing the risks of material misstatement on an audit. While this broad standard affects many areas of the professional standards and the text, Chapters 5, 6, and 7 include helpful concepts from the standard to aid students in understanding the approach to be taken on audits. Additional guidance is provided, primarily in the procedural chapters (Chapters 10 through 16) as appropriate.
- **System and Organization Controls (SOC) Reports.** SOC coverage is expanded in Chapters 7, 16, and 20. Chapter 7 particularly emphasizes SOC 1 reports since they are often used in conjunction with audits of financial statements when outsourcing is involved. Chapter 7 also briefly introduces SOC 2 and SOC 3 reports on a service organization’s controls using one or more of the trust services criteria developed by the public accounting profession. Chapter 16 briefly describes SOC reporting from the perspective of service providers. As in the past, Chapter 20 emphasizes SOC 2 and SOC 3 reporting and also introduces SOC for Cybersecurity and Supply Chain. All three chapters now use outsourcing of payroll as an illustration.
- **Government-Related Audits.** Chapter 2 now introduces (1) audits in accordance with *Generally Accepted Government Auditing Standards*, (2) audits in accordance with the Single Audit Act, and (3) audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974. While recognizing that many audits are mandated or otherwise related to the government requirements, the text informally refers to these as “Government Related Audits” in Chapter 2. Some coverage of these audits may be expected on the CPA Exam. More detailed coverage on these audits is updated and expanded in Chapter 19, a chapter often covered in an advanced auditing course.

- **Quality Management (Control) Standards.** Chapter 2's section on quality control standards is revised to cover the recent pronouncement of the AICPA Auditing Standards Board, which was modeled after the International Auditing and Assurance Services Standards Board quality management standards.
- **Increased Coverage of Inspections and Reviews.** The text's coverage of inspections and reviews has been expanded in Chapter 2 to now include more guidance on engagement quality reviews and inspections.
- **Concept Overview Videos.** New supplemental videos have been added with this release. The videos highlight particularly important, key information in each chapter. They are designed to be used in a variety of ways, including early in the discussion of a chapter or near completion of study of that chapter. Comments on them from both students and instructors have been very positive. Additional changes include:
- **Enhanced Coverage of Excel.** The text has long incorporated exercises that may be solved using Microsoft Excel. Enhanced coverage in this edition results in exercises included in McGrawHill's Integrated Excel Tool. The unit of exercises includes using Excel for analytical procedures, sampling, and evaluating audit findings.
- **Enhanced PCAOB General Coverage.** While coverage of PCAOB standards is emphasized throughout the text, Chapter 1 includes background coverage that has been thoroughly updated.
- **AICPA Code of Professional Conduct Updates.** The text includes a number of updates to the Code of Professional Conduct made by the AICPA's Professional Ethics Executive Committee. Key updates relate to
 - unpaid professional fees,
 - independence when consulting on information systems services, including the implementation of accounting standards,
 - responsibilities related to a client's noncompliance with laws and regulations, and
 - continuing education integrity of accountants related to ethical responsibilities.
- **Remote Auditing.** Chapter 6 includes a discussion of remote auditing and Chapter 7 has an Illustrative Case on the need to consider changes in internal control when the client's system has changed to include employees working remotely.
- **Cryptoassets.** Chapter 13 includes audit considerations involved when a client holds or transacts using cryptoassets.
- **Group Financial Statements.** These financial statements, also referred to as consolidated financial statements, are those that include the financial information of more than one entity or business unit prepared through a consolidation process. Chapter 17 is updated to include AICPA and PCAOB changes in auditor reporting and performance requirements when more than one CPA firm is involved with the group audit.




UWorld CPA Review content is integrated directly into your Connect course and provides the highest quality CPA Exam multiple-choice questions, helping students master key concepts they will see on the CPA Exam. In addition to access throughout Connect, UWorld provides a wide variety of options for you to integrate their entire suite of CPA Review resources directly into your program. To learn more, visit: <https://accounting.uworld.com/cpa-review/partner/university/>.

Text Features

Illustrative Cases

Actual business and accounting examples are used to illustrate key chapter concepts. The cases are boxed and appear throughout the text. They are subtitled for easy reference.

	Illustrative Case	<i>Indirect Financial Interests</i>
	<p>A covered member who owns shares in a mutual fund has a direct financial interest in the mutual fund, and an indirect financial interest in the mutual fund's investments. Thus, a covered member could not be involved in the audit of the mutual fund itself due to the direct financial interest. Concerning the mutual fund's investments in companies potentially audited by the covered member's firm, the following apply:</p> <p>1. Ownership of 5% or more of the outstanding shares</p>	<p>The following illustrates how to evaluate whether the underlying investment is material to a <i>covered member's</i> net worth. Assume:</p> <ul style="list-style-type: none">• Jano Mutual Fund, a diversified fund, has net assets of \$10 million, composed of an investment in shares of client Apple and a variety of other investments.• The <i>covered member</i> owns 6 percent of the outstanding shares of Jano Mutual Fund (a value of \$600,000).• Jano Mutual Fund has 2 percent of its assets invested in Apple (a \$200,000 investment).

Industry Focus Cases

These cases use examples from specific industries to provide students with a detailed, “real-world” illustration of points being emphasized in the text. These cases show the importance of having a thorough knowledge of the audit client’s business and industry. Like the Illustrative Cases, these cases are boxed and appear throughout the text.

Focus on the Airline Industry
<p>Electronic ticketing, basic to the airline industry, allows a passenger to electronically book a flight using any of a variety of devices and to be assigned a reservation number rather than being issued a physical ticket. Because no ticket is created for the flight, auditors are limited in the extent to which they can examine “paper” support for transactions. Accordingly, audit procedures should be developed relating to the associated revenues and receivables. Auditors often choose to include tests of the computer controls in such situations.</p>

Auditing Fair Value Information

As the accounting profession continues to value more assets and liabilities at their fair values, difficult audit issues often arise. The text includes integrated coverage of fair value accounting in Chapters 5, 10, 11, 13, and 16.

Audit Objectives

The use of Audit Objectives is a basic tool in audit plan design. These help the auditor focus on the *reason* a procedure is being done and provide a check to assure that all management assertions in the financial statements are audited.

Primary Audit Objectives:	
Existence	<input checked="" type="checkbox"/>
Occurrence	<input checked="" type="checkbox"/>
Rights	<input checked="" type="checkbox"/>

3. Inspect Notes on Hand and Confirm Those with Holders.

The inspection of notes receivable on hand should be performed concurrently with the count of cash and securities to prevent the concealment of a shortage by substitution of cash for misappropriated negotiable instruments, or vice versa. Any securities held by the client as collateral for notes receivable should be inspected and listed at the same time. The auditors should maintain complete control over all negotiable instruments until the count and inspection are completed.

Fraud

Because fraud is such an important aspect of today's auditing environment, we have included a logo wherever we talk about its implications in the auditing process.

Errors and Fraud



Auditing standards define **errors** as unintentional misstatements or omissions of amounts or disclosures in the financial statements. Errors may involve mistakes in gathering or processing data, unreasonable accounting estimates arising from overlooked or misinterpreted information, or mistakes in the application of applicable accounting principles.

Fraud, as the term is used in financial statement auditing (AICPA AU-C 240; PCAOB AS 2401), relates to *intentional* acts that cause a misstatement of the financial statements. Misstatements due to fraud may occur due to either (1) fraudulent financial reporting or (2) misappropriation of assets.

During the planning stage of an audit, the auditors are required to assess the risk of material

END-OF-CHAPTER MATERIAL

The material at the end of each chapter includes a combination of Review Questions, Questions Requiring Analysis, Objective Questions, Problems, In-Class Team Cases, Research and Discussion Cases, and/or Ethics Cases. Appendixes to Chapters 6, 11, and 14 include the case material and exercises for the Keystone Computers & Networks Inc., the illustrative audit case. Many of these questions are included in Connect as well. Manually graded Questions Requiring Analysis, algorithmic versions of select Objective Questions, auto-graded simulations, and Completion Questions located within the Additional Study Questions are also available in Connect.

Review Questions

The Review Questions are closely related to the material in the chapter and provide a convenient means of determining whether students have grasped the major concepts and details contained in that chapter.

Questions Requiring Analysis

The Questions Requiring Analysis require thoughtful consideration of a realistic auditing situation and the application of professional standards. A number of these questions are taken from CPA and CIA examinations, and others describe actual practice situations. These questions, which are generally shorter than the problems, tend to stress value judgments and conflicting opinions. They are now available for Connect assignment with manual grading.

Objective Questions

The Objective Questions are similar in format to those on the CPA exam. The first Objective Question in each chapter is composed of at least 12 multiple choice questions. Following that question are a number of task-based and document review simulations (discussed in the next section) and other objective questions. As indicated previously, the task-based simulations are from two sources—AICPA released questions (as adapted) and questions developed by the authors. All of the task-based simulations are meant to provide students with both learning experience relating to the material in the chapter and a realistic example of CPA exam testing. The other objective questions address basic concepts and information covered by AICPA simulations but may be less complete or may address a more limited content area than is typically the subject of an AICPA simulation.

Document Review Simulations

A document review simulation presents a realistic document as well as related source materials requiring candidate review. These simulations ordinarily include highlighted words, phrases, or sentences in the document that may or may not be correct, requiring the candidate to select appropriate edits based on the relevant source documents. We have written a number of such simulations and included them in the text's integrated case, **Keystone Computers & Networks Inc.**, in Chapters 10, 11, 12, 14, and 17. These simulations are available for assignment within McGraw-Hill's online homework management system, Connect.

Problems

Many of the Problems are drawn from CPA and CIA examinations. These problems are retained because they require a relatively detailed analysis of audit situations. Problems are keyed to the chapter's Learning Objectives.

In-Class Team Cases

These cases are meant to be solved in class either by teams of students or, if the instructor prefers, by individuals. They help provide the student with an active learning environment in which to apply key concepts included in each chapter.

In-Class Team Case



LO 2-3

2-43.

Hide-It (HI), a family-owned business based in Tombstone, Arizona, builds custom homes with special features, such as hidden rooms and hidden wall safes. Hide-It has been an audit client for three years. You are about to sign off on a "clean" unmodified opinion on HI's current annual financial statements when Art Hyde, the VP-Finance, calls to tell you that the Arizona Department of Revenue has seized control of a Hide-It bank account that includes about \$450,000 of company funds; the account is not currently recorded in the accounting system and you had been unaware of it. In response to your questions about the origin of the funds, Art assures you that the funds, though not recorded as revenue, had been obtained legitimately. He explains that all of the money came from separately billed but unrecorded change orders to

Research and Discussion Cases

These cases involve controversial situations that do not lend themselves clear-cut answers. Students are required to research appropriate professional literature and then apply critical thinking skills to logically formulate and justify their personal positions on the issues involved in each case. The cases acquaint students with the professional literature, develop research and communication skills required on the new CPA exam, and demonstrate that several diverse, yet defensible, positions may be argued persuasively in a given situation.

relating to its maintenance. Otherwise, the two are self-supporting. Scott is a stockbroker, and recently she has started acquiring shares in one of the audit clients of this office of the public accounting firm. The shares are held in Scott's name. At present, the shares are not material in relation to her net worth.

Case 2: Mary Reed, a new staff auditor with the firm, has recently separated from her husband. Mary has filed for divorce, but the divorce cannot become final for at least five months. The property settlement is being bitterly contested. Mary's husband has always resented her professional career and has just used community property to acquire one share of common stock in each of the publicly owned companies listed by the office in which Mary works.

Ethics Cases

Ethics Cases allow the instructor to discuss ethical issues in an integrated manner throughout the course. The cases present a series of situations that result in ethical dilemmas of the type that beginning accountants may expect to encounter in practice. These cases are included in selected chapters.

Ethics Cases

LO 11-1, 2, 6



11-51. You are an assistant audit or with Zaird & Associates, CPAs. Universal Air (UA), your fifth audit client in your eight months with Zaird, is a national airline based in your hometown. UA has continued to grow while remaining healthy financially over the eight years of its existence. Indeed, as you start the audit, you notice that (unaudited) sales are up 30 percent this year (20X1), with earnings up 40 percent. Your firm, Zaird & Associates, has been UA's only auditor.

During the audit you noticed that UA records sales when tickets are sold—debit receivable (or cash), credit sales. In performing substantive procedures relating to receivables, you also found that some of the "sales" are for 20X2 flights—generally in January and early February.

Illustrative Audit Case Exercises

These exercises all pertain to the text's updated continuing integrated case, **Keystone Computers & Networks Inc.** While each exercise may "stand alone," when used combination, these case exercises take the student from the original planning of an audit through the testing of controls, substantive testing, and accumulation and analysis of uncorrected misstatements. Exercises are included in Chapters 6, 11, 14, and 16. Also, the text's document review simulations relate to this integrated case—in Chapters 10, 11, 12, 14, and 17.

Appendix 6C

Illustrative Audit Case: Keystone Computers & Networks Inc.

Part I: Audit Planning

The Keystone Computers & Networks Inc. (KCN) case is used throughout the text to illustrate audit procedures and methodology. KCN is a company that sells and installs computer workstations and networking software to business customers. The CPA firm of Adams, Barnes & Co. audited the financial statements of the past th

Spreadsheet Templates

Spreadsheet templates are available on the text's website to be used in conjunction with selected audit case exercises. The exercises with templates are identified by a logo in the margin.

LO 6-3, 4

6C-4. The working paper for Keystone Computers & Networks' analytical review ratios is presented in this appendix.



- Recalculate the 12/31/X5 ratios using Excel.
- After completing part (a), review the ratios and identify financial statement accounts that should be investigated because the related ratios are not comparable to prior-year ratios, industry averages, or your knowledge of the company.
- For each account identified in part (b), list potential reasons for the unexpected account balances and related ratios.

Internet Assignments

Internet assignments are included among the end-of-chapter problem material for selected chapters. These assignments require students to use the **Internet** to do audit research and are identified with a logo in the margin.

LO 6-3



6-50

Perform an Internet search to access the text of the Securities Exchange Act of 1934. Read and summarize the internal control requirements of Section 13(b)(2) of the act.

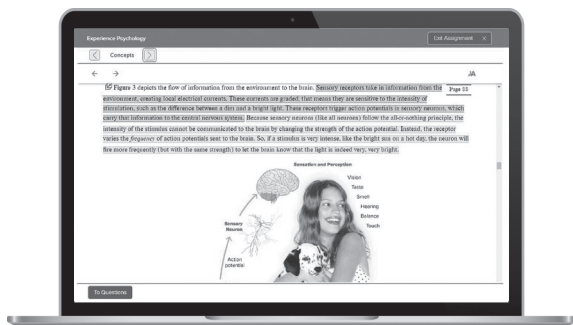
Audit Software Assignments

The text's generalized audit software materials using IDEA and Tableau are included in the Instructor and Student Resources within Connect Library. The IDEA materials are composed of two stand-alone modules—(1) audit sampling and (2) overall analytics skills coverage—that integrate analytics into text and course coverage. Either or both of these modules may be incorporated into the course to supplement traditional coverage. The Tableau materials are included in one module that takes the user from the very basic essentials of Tableau through detailed exercises using textual materials. Also, Chapter 9 identifies problems for use with generalized audit software.

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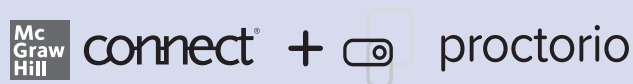


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Numerous references are made to the pronouncements of the American Institute of Certified Public Accountants (AICPA), The Institute of Internal Auditors (The IIA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Public Company Accounting Oversight Board (PCAOB), the Securities and Exchange Commission (SEC), and the International Federation of Accountants (IFAC). Special attention is given to the AICPA *Code of Professional Conduct*, *Statements on Standards for Accounting and Review Services*, *Statements on Standards for Attestation Engagements*, *Statements on Auditing Standards*, and guidelines developed for other types of assurance services. The cooperation of the AICPA and The IIA in permitting the use of their published materials and of questions from the CPA and CIA examinations brings to the text an element of authority not otherwise available.

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