

Twentieth Edition



# Principles of Auditing

*& Other Assurance Services*

O. Ray Whittington  
Kurt Pany

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Transforming Audit and Risk

# Principles of Auditing & Other Assurance Services

Twentieth Edition

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PRINCIPLES OF AUDITING & OTHER ASSURANCE SERVICES, TWENTIETH EDITION

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# About the Authors

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## Kurt Pany

Kurt Pany, CFE, CPA, is a Professor of Accounting at Arizona State University. He received his B.S., M.B.A., and Ph.D. degrees from the University of Arizona, the University of Minnesota, and the University of Illinois, respectively. He has also served as a staff accountant with Arthur Andersen and Touche Ross, as a member of the Auditing Standards Board, and as an academic fellow with the American Institute of Certified Public Accountants. Professor Pany has published articles on auditing in such journals as *The Journal of Accounting Research*, *The Accounting Review*, *Auditing: A Journal of Practice and Theory*, *The Journal of Accountancy*, and *The CPA Journal*. He is a member of and has served on various committees of the American Accounting Association and the American Institute of Certified Public Accountants.

# Preface

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The 20th edition 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, 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 the Sarbanes-Oxley Act of 2002 and SEC requirements. Chapters 19 and 20 present the auditors' reporting responsibilities and other attestation and accounting services, such as reviews and compilations of financial statements and reports 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). The instructor might also wish to consider covering portions of Chapter 9 on sampling in the second course, with or without ACL 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 include a significant amount of material on transaction cycles. For example, Chapters 10 through 13 include detailed coverage of revenue, cash receipts, acquisitions, and disbursements cycles.

3. **CPA examination support.** Both the text's emphasis on current auditing standards and its many objective questions (both multiple choice and other objective format) are aimed at helping students pass the CPA exam. As discussed in detail in the following section, this edition has significantly expanded the number of task-based simulations like the ones included on the CPA exam.
4. **Strong student and instructor support.** Both McGraw-Hill *Connect*<sup>®</sup> *Accounting* and the Online Learning Center provide instructors and students with a wealth of material to help keep students up-to-date. The Center also contains quizzes and other resources to help students in this course. The address of the Center (and the text website) is [www.mhhe.com/whittington20e](http://www.mhhe.com/whittington20e).

We are confident that the 20th edition 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 nine 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, consideration of internal control, audit sampling, audit documentation, and general records.

**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 governance and includes a brief history of the auditing profession, including up-to-date coverage of the Sarbanes-Oxley Act of 2002 and the Public Company Accounting Oversight Board.

**Chapter 2:** Includes detailed coverage of the new *Principles Underlying an Audit Conducted in Accordance with Generally Accepted Auditing Standards*, which replace the 10 generally accepted auditing standards for audits of nonpublic companies. An appendix highlights a number of differences between international and U.S. standards.

**Chapter 3:** Updated to reflect the most recent AICPA and PCAOB requirements. This includes the new AICPA Code of Professional Conduct passed in 2014.

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

**Chapters 5 through 7:** Material from the risk assessment standards is thoroughly integrated throughout.

**Chapter 5:** The discussion of evidence has been streamlined to parallel the presentation of evidence in recently issued auditing standards.

**Chapter 6:** The risk assessment approach to an audit is concisely summarized in a summary of the audit process.

**Chapter 7:** Discusses internal control and how it is considered in an audit of financial statements. The chapter is revised to include the new Committee of Sponsoring Organizations (COSO) internal control framework issued in 2013. It also includes a brief overview of integrated audits (audits of internal control integrated with financial statement audits) required for certain public companies under PCAOB Standard No. 5, with more detailed coverage provided in Chapter 18. The chapter includes a section on the audit requirements when a client outsources its computer processing to a service organization. Finally, it presents the auditors' internal control communication responsibilities.

Students in auditing need familiarity with auditing standards promulgated by three different bodies: (1) the AICPA's Auditing Standards Board, (2) the Public Company Accounting Oversight Board, and (3) the International Auditing and Assurance Standards Board. 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.

This edition of the text has expanded the number of task-based simulations included in the after-chapter problem material. These questions are designed to help students both to learn the material presented in the text and to prepare them to complete such questions on the CPA exam. Many of the task-based 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.

- 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
- 7 Internal Control

**Keystone Computers & Networks, Inc.**, is the text's **Illustrative Audit Case**. This feature has been updated in this edition 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 problem-solving 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 and also integrates the fundamentals of audit sampling from Chapter 9.

- 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. It includes concepts such as "off-the-shelf" software packages through the use of cloud computing.

**Chapter 9:** Includes attributes and variable sampling. For variables sampling there are standalone discussions of classical methods and probability-proportional-to-size sampling.

**Chapters 10 through 16:** These "procedural chapters" deal with internal control and obtaining audit evidence for the various financial statement amounts. The chapters emphasize the risk-based approach stressed in recent AICPA, PCAOB, and international standards.

**Chapter 17:** Reflects reporting requirements of the AICPA clarity standards, as well as coverage of PCAOB and international audit reports.

**Chapter 18:** Reflects PCAOB *Standard No. 5* on the audit of internal control over financial reporting required for public companies. The chapter is revised to include discussion of the concepts included in the 2013 version of COSO.

**Chapter 19:** Updated to include 2014 revisions to requirements for financial statement preparation, of compilation and review engagements, auditor reporting on financial 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. The material on attestation services describes the current professional standards. Recent pronouncements on service organization control (SOC) reports are included. Other assurance services are included at both a conceptual and practical level.

**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 2007 revision to the "Yellow Book."



# New to This Edition

The 20th edition has been revised to reflect a number of events, to make the material more understandable, and to increase the scope of objective question coverage, including:

- **Reformatted AICPA Code of Professional Conduct.** In 2014 the American Institute of Certified Public Accountants (AICPA) issued its reformatted Code of Professional Conduct. The intent is to maintain the substance of the previous code, while reorganizing material to be more intuitively organized. The new code is divided into 3 parts that separate requirements according to whether members are in (1) public practice, (2) business or (3) other (e.g., retired or between jobs). The new code also expands the “threats and safeguards” approach of the previous code—that is, if the code doesn’t precisely address an area the member must identify, evaluate, and address threats to code compliance and consider available safeguards. Chapter 3 of our text presents and describes the reformatted Code of Professional Conduct.
- **Revised Compilation and Review Requirements for Non-Issuers.** In 2014 the AICPA revised compilation and review standards to be in a clarity format, as is the case with its auditing standards. Also, the standards now allow a new “financial statement preparation” service, which does not ordinarily require a CPA to issue a report. Other changes include (1) a requirement that a compilation report be issued whenever a compilation is performed, and (2) revised compilation and review reports. These requirements are discussed in Chapter 19.
- **2013 COSO Revision.** In 1992 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its *Internal Control—Integrated Framework*. That framework gained board acceptance as the leading framework for designing, implementing, and executing internal control, and assessing the effectiveness of internal control. It was revised in 2013. Chapters 7 and 18 of the text now emphasize that 2013 COSO revision.
- **Objective Questions.** Throughout the text we have added objective questions, including task-based simulations. These questions address key concepts and are structured in the form students may expect to see on the CPA exam. They are also included in *Connect*, thus making it easy for the instructor to assign as work to be turned in and electronically graded. Details on *Connect* are provided later in this preface.


Additional Changes include

- **Analytical Procedures.** Ratio analysis is an important approach for performing analytical procedures. Chapter 5 includes an enhanced discussion of the effects of various transactions upon ratios.
- **Testing Infrequently Applied Controls.** Certain controls may be expected to operate only weekly (e.g., payroll), or monthly (e.g., the posting of certain adjusting entries). Chapter 9 includes a brief discussion of the testing of such controls.
- **Subsequent Events.** Chapter 16’s discussion of subsequent events is updated.
- **Brokers and Dealers.** In 2013, the SEC adopted amendments to the Securities Exchange Act of 1934 to implement a portion of the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to brokers and dealers. Chapter 21 briefly summarizes auditor responsibilities relating to financial statements filed under the Act.

# Features of This Edition

## Illustrative Cases

Actual business and accounting examples are used to illustrate key chapter concepts. The cases are boxed and appear throughout the text. New cases have been added for recent alleged audit failures. They are now subtitled for easy reference.

	Illustrative Case	<i>Indirect Financial Interests</i>
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:	A covered member who owns shares in a mutual fund has a direct financial interest	The following illustrates how to evaluate whether the underlying investment is material to a <i>covered member's</i> net worth. Assume: <ul style="list-style-type: none"><li>• Jano Mutual Fund, a diversified fund, has net assets are \$10 million, composed of an investment in shares of client Apple and a variety of other investments.</li><li>• The <i>covered member</i> owns 6 percent of the outstanding shares of Jano Mutual Fund (a value of \$600,000).</li><li>• Jano Mutual Fund has 2 percent of its assets invested in Apple (a \$200,000 investment).</li></ul>

1. Ownership of 5% or less of the outstanding shares

## 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**

Electronic ticketing has become basic to the airline industry. Under these systems a passenger may book a flight over the telephone or by computer and be assigned a reservation number rather than being issued a physical ticket. Since no ticket is created until the passenger checks in for the flight, the auditor is limited in the extent to which he or she can examine “paper” support for transactions. Accordingly, audit procedures should be developed relating to the associated revenues and receivables. Auditors often choose to test the computer controls in such situations.

## 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.

## Illustrative Documents

Documents included in the various procedural chapters (Chapters 10 through 16) provide concise, realistic examples of the documents associated with the various transaction cycles.

**Sales**

**PURCHASE ORDER** 78644

Pilot Stores  
1425 G St.  
Irvine, CA 92345

To: Wood Supply Co. Date: Nov. 10, 20X0  
21 Main St.  
Suisun, CA 95483 Ship via: Jon Trucking

Terms: 2/10, n/40

Enter our order for

Qty	Description	Price	Total
20 doz.	Q Clamps #26537489	\$235.00	\$4700.00
10	120 hp Generators #45983748	355.00	3550.00

Wood Supply Co.  
By: *Bill Jones*

**BILL OF LADING** 10026574

Wood Supply Co.  
21 Main St.  
Suisun, CA 95483 Date: Nov. 25, 20X0

Shipped to: Pilot Stores Order No.: 476538  
1425 G St.  
Irvine, CA 92345 Shipper: Jon Trucking

Quantity	Description	Weight
5 Boxes	20 doz. Q Clamps #26537489	142
10 Crates	10 hp Generators #45983748	2560
		2702

Shipper's Acceptance: *Bill Warren*

**SALES ORDER** 476538

Wood Supply Co.  
21 Main St.  
Suisun City, CA 95483

To: Pilot Stores Date: Nov. 23, 20X0  
1425 G St.  
Irvine, CA 92345 Credit Approval: **MS**

Cust. No.: 12654

Description	Part No.	Quantity
Q Clamps	26537489	20 doz.
120 hp Generators	45983748	10

**Cash Receipts**

**Check**

Pilot Stores  
1425 G St.  
Irvine, CA 92345 Date: Dec. 5, 20X0

Pay to the order of Wood Supply Co. \$8085.00  
Eight thousand eighty-five and no/100

First National Bank Pilot Stores  
California *Jacquie Cochran*

Remittance Advice  
Wood Supply Co.  
Inv. #7462537 \$8085.00

## Audit Objectives

The use of Audit Objectives is a basic tool in audit program 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.

<p>Primary Audit Objectives:</p> <p>Valuation <input checked="" type="checkbox"/></p> <p>Accuracy <input checked="" type="checkbox"/></p>	<p><b>2. Obtain Analyses of Notes Receivable and Related Interest and Reconcile to the General Ledger.</b></p> <p>An analysis of notes receivable supporting the general ledger control account may be prepared for the auditors by the client's staff. The information to be included in the analysis normally will include the name of the maker, date, maturity, amount, and interest rate. In addition to verifying the accuracy of the analysis prepared by the client, the auditors should trace selected items to the accounting records and to the notes themselves.</p>
<p>Primary Audit Objectives:</p> <p>Existence <input checked="" type="checkbox"/></p>	<p><b>3. Inspect Notes on Hand and Confirm Those with Holders.</b></p> <p>The inspection of notes receivable on hand should be performed concurrently with the count of cash and securities to prevent the concealment of a show substitution of</p>

## Illustrations, Tables, and Flowcharts

These are used throughout to enhance and clarify the presentation. In this edition, flowcharts have been color-coded consistently to help students see and better understand the concepts.


## Chapter Learning Objectives

These objectives provide a concise presentation of each chapter's most important concepts. They are numbered and referenced in the chapter.

<b>LO 11-1</b> Describe the nature of receivables.	Trade notes and accounts receivable usually are relatively large in amount and should appear as separate items in the current assets section of the balance sheet at their net realizable value. Auditors are especially concerned with the presentation and disclosure of loans to officers, directors, and affiliated companies. These related party transactions are commonly made for the convenience of the borrower rather than to benefit the lending company. Consequently, such loans are often collected only at the convenience of the borrower. It is a basic tenet of financial statement presentation that transactions not characterized by arm's-length bargaining should be fully disclosed.	transactions cycle and the fundamental controls over receivables and revenue.
<b>Sources and Nature of Notes Receivable</b>	Notes receivable are written promises to pay certain amounts at future dates. Typically, notes receivable are used for handling transactions of substantial amount; these negotiable documents are widely used in business and other financial	<b>LO 11-4</b> Use the understanding of the client and its environment to consider inherent risks (including fraud risks) related to receivables and revenue. <b>LO 11-5</b> Obtain an understanding of internal control over receivables and revenue.

## Fraud

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

<b>Errors and Fraud</b> 	Auditing standards define <b>errors</b> 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 oversight or misinterpretation of facts, or mistakes in the application of applicable accounting principles. <b>Fraud</b> , as the term is used in AICPA AU-C 240 (PCAOB 316), relates to <i>intentional</i> 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 (also referred to as "embezzlement" or "falsification").
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## ACL Software and Related Materials

CPAs in public practice and internal auditors are increasingly using ACL data analytics software to perform audit procedures, including fraud detection. Accordingly, we have integrated ACL analytic software and related materials with the text at no extra cost. The text's website ([www.mhhe.com/whittington20e](http://www.mhhe.com/whittington20e)) includes two stand-alone modules: (1) audit sampling and (2) overall ACL coverage that integrates ACL analytics into the text. Either or both of these modules may be incorporated into the course to supplement traditional coverage.

# 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. Also included with certain end-of-chapter materials are Spreadsheet Templates, Internet Assignments, and ACL Assignments.

## 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.

## Objective Questions

The Objective Questions are similar in format to 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 simulations 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 a 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. The Objective Questions are available for assignment within McGraw-Hill's online homework management system, *Connect Accounting*.

## 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. All applicable Problems are available with McGraw-Hill's *Connect Accounting*.

## 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

2-38.

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" 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

## 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 audited 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



11-48. You are an assistant auditor 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 in 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.

### 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 procedures and methodology. KCN is a company that sells and installs computer workstations and working software to business customers. The CPA firm of Adams, Barnes & Co. has audited the financial statements of KCN for the past three years. This part of the case illustrates selective auditing.

## 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. A partially completed analytical ratios working paper for Keystone Computers & Networks, Inc., is presented on page 244.

*Required:*

 **eXcel**

- Complete the working paper by computing the financial ratios for 20X5.
- 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** 6-37. The text of the Securities Exchange Act of 1934 may be accessed on the Internet, using the following address:

**[www.law.uc.edu/CCL/34Act/index.html](http://www.law.uc.edu/CCL/34Act/index.html)**

*Required:*

 **Internet**


- Use the Internet 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.

## ACL Analytics Assignments

The text's ACL materials are included on the text's website ([www.mhhe.com/whittington20e](http://www.mhhe.com/whittington20e)). Those materials are composed of two stand-alone modules—(1) audit sampling and (2) overall ACL analytics skills coverage—that integrate ACL analytics into text and course coverage. Either or both of these modules may be incorporated into the course to supplement traditional coverage. Also, Chapter 9 identifies with the ACL Logo problems, which the website supplements with ACL analytics requirements.

**LO 9-5** 9-30. In performing a test of controls for sales order approvals, the CPAs stipulate a tolerable deviation rate of 8 percent with a risk of assessing control risk too low of 5 percent. They anticipate a deviation rate of 2 percent.

*Required:*

 **ACL**

- What type of sampling plan should the auditors use for this test?
- Using the appropriate table or formula from this chapter, compute the required sample size for the test.

# Technology

## McGraw-Hill's *Connect*<sup>®</sup> Accounting

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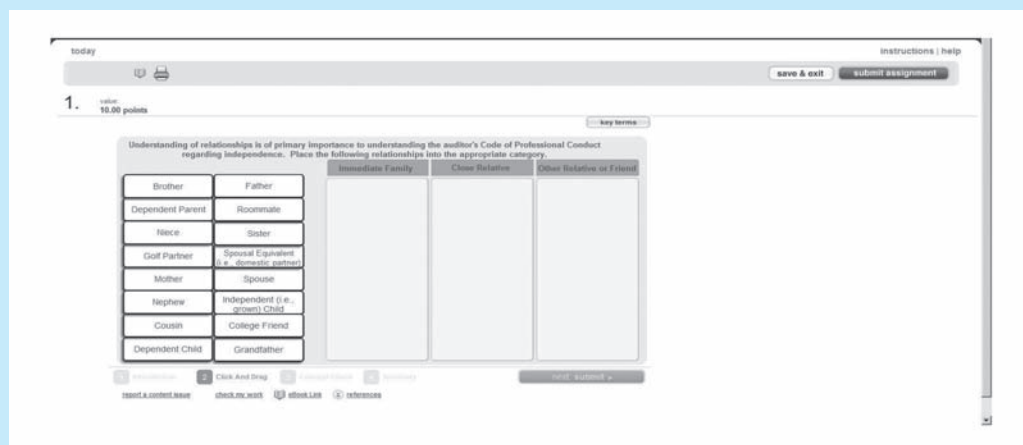
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- Solutions Manual
- Test Bank
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In addition to Blackboard integration, course cartridges for whichever online course management system you use (e.g., WebCT or eCollege) are available for Whittington 20e. Our cartridges are specifically designed to make it easy to navigate and access content online. They are easier than ever to install on the latest version of the course management system available today.

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# Instructor Supplements

## Assurance of Learning Ready

Many educational institutions today are focused on the notion of assurance of learning, an important element of some accreditation standards. *Principles of Auditing & Other Assurance Services, 20e*, is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution. Each test bank question for *Principles of Auditing & Other Assurance Services, 20e*, maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test Online, to easily query for learning outcomes/objectives that directly relate to the learning objectives for your course. You can then use the reporting features of EZ Test Online to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

## AACSB Statement

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*Connect Accounting* offers a number of powerful tools and features to make managing your classroom easier. *Connect Accounting* with Whittington 20e offers enhanced features and technology to help both you and your students make the most of your time inside and outside the classroom. See page xv for more details.

## Online Learning Center ([www.mhhe.com/whittington20e](http://www.mhhe.com/whittington20e))

The password-protected instructor side of the book's Online Learning Center (OLC) houses all of the instructor resources you need to administer your course, including:

- Instructor's Lecture Guide
- Solutions Manual
- Keystone Case and Solutions
- ACL Instructor Materials
- Test Bank
- EOC Conversion Guide
- Text Updates
- Digital Image Library
- PowerPoint Presentation

If you choose to use *Connect Accounting* with Whittington, you will have access to these same resources via the Instructor Library.

## Instructor's Lecture Guide and Solutions Manual

Our Instructor's Lecture Guide includes topical outlines of each chapter, the authors' comments on each chapter, and numerous instructional aids. A Solutions Manual includes thorough and up-to-date solutions to the text's questions, problems, and exercises. These are included on the Online Learning Center.

## EZ Test

Available on the Instructor's OLC and within the *Connect* Instructor Library, McGraw-Hill's EZ Test Online is a flexible electronic testing program. The program allows instructors to create tests from

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McGraw-Hill's *Connect Accounting* helps prepare students for their future by enabling faster learning, more efficient studying, and higher

retention of knowledge. See page xv for more details.

## Online Learning Center ([www.mhhe.com/whittington20e](http://www.mhhe.com/whittington20e))

The Online Learning Center (OLC) follows Whittington 20e chapter by chapter, offering

supplementary help for students as they read. The OLC includes the following resources to help students study more efficiently:

- Online Quizzes
- Student PowerPoint Slides
- Keystone Case
- ACL Materials
- Auditing weblinks

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## REFERENCES TO AUTHORITATIVE SOURCES

Numerous references are made to the pronouncements of the American Institute of Certified Public Accountants (AICPA), The Institute of Internal Auditors (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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