

## DISCUSSION QUESTIONS AND PROBLEMS

✓ **5-17 (OBJECTIVES 5-2, 5-3)** The following are five independent situations.

1. Joanie Brogan is a partner in an audit firm that operates as a limited liability partnership (LLP). The firm has been sued for an alleged audit failure related to an audit engagement handled by a different partner in the firm. While Brogan had no involvement in the engagement, she is concerned that the plaintiff may successfully sue her seeking restitution from her personal assets.
2. A lawsuit has been filed against Carter Hockaday, CPA, charging him with constructive fraud in the audit of Broughton Company's financial statements. Hockaday has examined all the audit documentation in his files and reviewed all relevant auditing standards. He is convinced that his audit fully complies with standards of the profession but is uncertain what he should use as his primary defense tactic.
3. West Camera Co. filed for bankruptcy in January 2015. A recent blog suggested that West's external auditors should be sued for failing to include a going concern explanatory paragraph in the firm's opinion on the financial statements issued before the bankruptcy, even though the fair presentation of the financial statements is not being disputed.
4. The audit firm Weaver and Jones, LLP, received a subpoena for its documentation related to the audit of Westbrook Corporation's financial statements. The firm has refused to respond, alleging that the documentation is considered privileged communication between the firm and its client.
5. Spencer Cullen, CPA, is a defendant in a lawsuit alleging that Cullen should be held legally liable for gross negligence for a fraud involving the valuation of securities included in the financial statements of one of his clients. Cullen was uncertain how to establish a correct valuation for the securities and decided to rely on the price estimation supplied by management.

**Required** Analyze each situation and provide your assessment of the potential resolution of each scenario, including potential liability for the auditor or audit firm involved.

**5-18 (OBJECTIVES 5-3, 5-4, 5-5, 5-6)** Following are eight statements with missing terms involving auditor legal liability.

1. A third party lacking privity will often be successful in bringing a claim against the auditor if they can demonstrate \_\_\_\_\_ or \_\_\_\_\_.
2. Under the *Ultramares* doctrine, an auditor is generally not liable for \_\_\_\_\_ to third parties lacking \_\_\_\_\_.
3. The auditor will use a defense of \_\_\_\_\_ in a suit brought under the 1933 Securities Act.
4. Under the 1933 Act, plaintiffs do not have to demonstrate \_\_\_\_\_, but need merely demonstrate the existence of a(n) \_\_\_\_\_.
5. After passage of the Private Securities Litigation Reform Act, auditors generally have \_\_\_\_\_ liability in federal securities cases.
6. The broadest class of third parties under common law is known as \_\_\_\_\_.
7. Based on the ruling in *Hochfelder v. Ernst & Ernst*, an auditor generally must have knowledge and \_\_\_\_\_ to be found guilty of a violation of Rule 10b-5 of the 1934 Act.
8. \_\_\_\_\_ is generally only available as a defense in suits brought by clients.

### Terms

- |   |                               |
|---|-------------------------------|
| a. Due diligence                        | g. Intent to deceive          |
| b. Reliance on the financial statements | h. Privity of contract        |
| c. Fraud                                | i. Gross negligence           |
| d. Ordinary negligence                  | j. Foreseen users             |
| e. Separate and proportionate           | k. Material error or omission |
| f. Contributory negligence              |                               |

**Required** For each of the 11 blanks in statements 1 through 8, identify the most appropriate term. No term can be used more than once.

**5-19 (OBJECTIVES 5-3, 5-7)** The following independent scenarios describe auditor behavior on an audit engagement.



1. Chad Lewis is the lead audit partner on the audit engagement of a publicly traded company. Chad followed auditing standards on the audit engagement and issued an unmodified opinion. It was subsequently discovered that the financial statements contained a material misstatement that had been undetected by the management of the company and by the audit team.
2. Maria Marquez, CPA, is a sole proprietor. She recently accepted a new audit client who was applying for a bank loan and needed to present audited financial statements to the bank. Maria was not able to complete the audit engagement by herself, so she hired several college students to assist her. The students completed the audit procedures without much guidance, and Maria issued an unmodified opinion on the client's financial statements.
3. On a recent audit engagement, the client firm neglected to inform the audit firm that a significant percentage of inventory was stored at an outside warehouse. As a result, the auditors did not observe the physical inventory count for that inventory, which represented 20% of the client's inventory balance. The auditors were able to satisfy themselves that the inventory existed through alternative procedures, and issued an unmodified opinion on the financial statements as a whole.
4. The audit engagement partner, Marc Johnson, recently received a subpoena for workpapers related to an audit engagement on which his audit firm has been named as a defendant. Marc asked the staff auditor to remove and discard two memos from the workpaper files documenting communication between the engagement partner and the CFO regarding the goodwill impairment analysis.
5. Melissa Louis is the lead engagement partner on a publicly traded company. The company's CEO recently approached Melissa and informed her that they had identified a material misstatement in the prior year's financial statements, which had been audited by Melissa's firm and submitted to the SEC. The CEO suggested they correct the misstatement by recording a journal entry in the current year for half of the amount of the misstatement, and in the following year for the remaining half. Melissa agreed to this plan to avoid a public announcement of a restatement and a potential lawsuit, since the amount of the journal entries recorded in the current and subsequent years would be considered immaterial to the financial statements.

For each of the scenarios listed above, discuss whether the auditor's behavior would be considered nonnegligence, ordinary negligence, gross negligence, constructive fraud, fraud, or criminal behavior.

**Required**

**5-20 (OBJECTIVES 5-4, 5-5)** Lauren Yost & Co., a medium-sized CPA firm, was engaged to audit Stuart Supply Company. Several staff were involved in the audit, all of whom had attended the firm's in-house training program on effective auditing methods. Throughout the audit, Yost spent most of her time in the field planning the audit, supervising the staff, and reviewing their work.

A significant part of the audit entailed verifying the physical count, cost, and summarization of inventory. Inventory was highly significant to the financial statements, and Yost knew the inventory was pledged as collateral for a large loan to First City National Bank. In reviewing Stuart's inventory count procedures, Yost told the president she believed the method of counting inventory at different locations on different days was highly undesirable. The president stated that it was impractical to count all inventory on the same day because of personnel shortages and customer preference. After considerable discussion, Yost agreed to permit the practice if the president signed a statement that no other method was practical. The CPA firm had at least one person at each site to audit the inventory count procedures and actual count. There were more than 40 locations.

Eighteen months later, Yost found out that the worst had happened. Management below the president's level had conspired to materially overstate inventory as a means of covering up obsolete inventory and inventory losses resulting from mismanagement. The misstatement occurred by physically transporting inventory at night to other locations after it had been counted in a given location. The accounting records were inadequate to uncover these illegal transfers.

Both Stuart Supply Company and First City National Bank sued Lauren Yost & Co.

- Required** Answer the following questions, setting forth reasons for any conclusions stated:
- What defense should Lauren Yost & Co. use in the suit by Stuart?
  - What defense should Lauren Yost & Co. use in the suit by First City National Bank?
  - Is Yost likely to be successful in her defenses?
  - Would the issues or outcome be significantly different if the suit was brought under the Securities Exchange Act of 1934?

**5-21 (OBJECTIVE 5-5)** The CPA firm of Bigelow, Barton, and Brown was expanding rapidly. Consequently, it hired several junior accountants, including a man named Small. The partners of the firm eventually became dissatisfied with Small's productivity and warned him they would be forced to discharge him unless his output increased significantly.

At that time, Small was engaged in audits of several clients. He decided that to avoid being fired, he would reduce or omit some of the standard auditing procedures listed in audit programs prepared by the partners. One of the CPA firm's clients, Newell Corporation, was in serious financial difficulty and had adjusted several of the accounts being audited by Small to appear financially sound. Small prepared fictitious audit documentation in his home at night to support purported completion of auditing procedures assigned to him, although he in fact did not examine the adjusting entries. The CPA firm rendered an unmodified opinion on Newell's financial statements, which were grossly misstated. Several creditors, relying on the audited financial statements, subsequently extended large sums of money to Newell Corporation.

- Required** Will the CPA firm be liable to the creditors who extended the money because of their reliance on the erroneous financial statements if Newell Corporation should fail to pay them? Explain.\*

**5-22 (OBJECTIVES 5-3, 5-5)** Doyle and Jensen, CPAs, audited the accounts of Regal Jewelry, Inc., a corporation that imports and deals in fine jewelry. Upon completion of the audit, the auditors supplied Regal Jewelry with 20 copies of the audited financial statements. The firm knew in a general way that Regal Jewelry wanted that number of copies of the auditor's report to furnish to banks and other potential lenders.

The balance sheet in question was misstated by approximately \$800,000. Instead of having a \$600,000 net worth, the corporation was insolvent. The management of Regal Jewelry had doctored the books to avoid bankruptcy. The assets had been overstated by \$500,000 of fictitious and nonexisting accounts receivable and \$300,000 of nonexisting jewelry listed as inventory when in fact Regal Jewelry had only empty boxes. The audit failed to detect these fraudulent entries. Thompson, relying on the audited financial statements, loaned Regal Jewelry \$200,000. She seeks to recover her loss from Doyle and Jensen.

- Required** State whether each of the following is true or false and give your reasons:
- If Thompson alleges and proves negligence on the part of Doyle and Jensen, she will be able to recover her loss.
  - If Thompson alleges and proves constructive fraud (that is, gross negligence on the part of Doyle and Jensen), she will be able to recover her loss.
  - Thompson does not have a contract with Doyle and Jensen.
  - Unless actual fraud on the part of Doyle and Jensen can be shown, Thompson cannot recover her loss.
  - Thompson is a third-party beneficiary of the contract Doyle and Jensen made with Regal Jewelry.\*

✓ **5-23 (OBJECTIVES 5-5, 5-6)** In order to expand its operations, Barton Corp. raised \$5 million in a public offering of common stock, and also negotiated a \$2 million loan from First National Bank. In connection with this financing, Barton engaged Hanover & Co., CPAs, to audit Barton's financial statements. Hanover knew that the sole purpose of the audit was so that Barton would have audited financial statements to provide to First National Bank and the purchasers of the common stock. Although Hanover conducted the audit in conformity with its audit program, Hanover failed to detect material acts of embezzlement committed by Barton Corp.'s president. Hanover did not detect the embezzlement because of its inadvertent failure to exercise due care in designing the audit program for this engagement.

\*Based on AICPA question paper, American Institute of Certified Public Accountants.

After completing the engagement, Hanover issued an unmodified opinion on Barton's financial statements. The financial statements were relied upon by the purchasers of the common stock in deciding to purchase the shares. In addition, First National Bank approved the loan to Barton based on the audited financial statements. Within sixty days after the sale of the common stock and the issuance of the loan, Barton was involuntarily petitioned into bankruptcy. Because of the president's embezzlement, Barton became insolvent and defaulted on the loan from the bank. Its common stock became virtually worthless. Actions have been brought against Hanover by:

- The purchasers of the common stock, who have asserted that Hanover is liable for damages under Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934.
  - First National Bank, based upon Hanover's negligence.
  - Trade creditors who extended credit to Barton based upon Hanover's negligence.
- a. Discuss whether you believe Hanover will be found liable to the purchasers of common stock.
  - b. Indicate whether you believe First National Bank will be successful in its claim against Hanover.
  - c. Indicate whether you believe the trade creditors will be successful in their claim against Hanover.\*

**Required**

**5-24 (OBJECTIVE 5-6)** Under Section 11 of the Securities Act of 1933 and Section 10(b), Rule 10b-5, of the Securities Exchange Act of 1934, a CPA may be sued by a purchaser of registered securities. The following items relate to what a plaintiff who purchased securities must prove in a civil liability suit against a CPA.

The plaintiff security purchaser must allege or prove:

1. Material misstatements were included in a filed document.
2. A monetary loss occurred.
3. Lack of due diligence by the CPA.
4. Privity with the CPA.
5. Reliance on the financial statements.
6. The CPA had scienter (knowledge and intent to deceive).

For each of the items 1 through 6 listed above, indicate whether the statement must be proven under

**Required**

- a. Section 11 of the Securities Act of 1933 only.
- b. Section 10(b) of the Securities Exchange Act of 1934 only.
- c. Both Section 11 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934.
- d. Neither Section 11 of the Securities Act of 1933 nor Section 10(b) of the Securities Exchange Act of 1934.\*

**5-25 (OBJECTIVE 5-5)** Sarah Robertson, CPA, had been the auditor of Majestic Co. for several years. As she and her staff prepared for the audit for the year ended December 31, 2015, Herb Majestic told her that he needed a large bank loan to "tide him over" until sales picked up as expected in late 2016.

In the course of the audit, Robertson discovered that the financial situation at Majestic Co. was worse than Majestic had revealed and that the company was technically bankrupt. She discussed the situation with Majestic, who pointed out that the bank loan would "be his solution"—he was sure he would get it as long as the financial statements didn't look too bad.

Robertson stated that she believed the statements would have to include a going concern explanatory paragraph. Majestic said that this wouldn't be needed because the bank loan was so certain and that inclusion of the going concern paragraph would certainly cause the management of the bank to change its mind about the loan.

Robertson finally acquiesced and the audited statements were issued without a going concern paragraph. The company received the loan, but things did not improve as Majestic thought they would and the company filed for bankruptcy in August 2016.

The bank sued Sarah Robertson for fraud.

Indicate whether or not you think the bank will succeed. Support your answer.

**Required**

\*Based on AICPA question paper, American Institute of Certified Public Accountants.

audit of internal control over financial reporting as defined by PCAOB auditing standards (AS 5) ([www.pcaobus.org](http://www.pcaobus.org)).

- a. Compare the objective of an audit under AICPA Auditing Standards and International Standards on Auditing. Are there substantive differences in the objective of an audit as defined by these two sets of standards?
- b. What is the objective of an audit of internal control over financial reporting according to PCAOB auditing standards?
- c. What defines whether financial statements are fairly stated, and what defines whether internal control is considered effective? Are they related?

**Required**

**6-25 (OBJECTIVES 6-2, 6-3)** The following are selected portions of the report of management from a published annual report.

**Report of Management**

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of its President and Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting in accordance with accounting principles generally accepted in the United States of America. Management evaluates the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Management, under the supervision and with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, and concluded it is effective.

**Management's Responsibility for Consolidated Financial Statements**

Management is also responsible for the preparation and content of the accompanying consolidated financial statements as well as all other related information contained in this annual report. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States, and necessarily include amounts which are based on management's best estimates and judgments.

- a. What are the purposes of the two parts of the report of management?
- b. What is the auditor's responsibility related to the report of management?

**Required**

**6-26 (OBJECTIVES 6-1, 6-3)** Auditors provide "reasonable assurance" that the financial statements are "fairly stated, in all material respects." Questions are often raised as to the responsibility of the auditor to detect material misstatements, including misappropriation of assets and fraudulent financial reporting.

- a. Discuss the concept of "reasonable assurance" and the degree of confidence that financial statement users should have in the financial statements.
- b. What are the responsibilities of the independent auditor in the audit of financial statements? Discuss fully, but in this part do not include fraud in the discussion.
- c. What are the responsibilities of the independent auditor for the detection of fraud involving misappropriation of assets and fraudulent financial reporting? Discuss fully, including your assessment of whether the auditor's responsibility for the detection of fraud is appropriate.

**Required**

**6-27 (OBJECTIVE 6-4)** The following information was obtained from several accounting and auditing enforcement releases issued by the Securities and Exchange

Commission (SEC) after its investigation of fraudulent financial reporting involving Just for Feet, Inc.:

**Just for Feet, Inc.**, was a national retailer of athletic and outdoor footwear and apparel based in Birmingham, AL. The company incurred large amounts of advertising expenses and most vendors offered financial assistance through unwritten agreements with Just for Feet to help pay for these advertising expenses. If Just for Feet promoted a particular vendor's products in one of its advertisements, that vendor typically would consider agreeing to provide an "advertising co-op credit" to the Company to share the costs of the advertisement. Just for Feet offset this co-op revenue against advertising expense on its income statement, thereby increasing its net earnings. Although every vendor agreement was somewhat different, Just for Feet's receipt of advertising co-op revenue was contingent upon subsequent approval by the vendor. If the vendor approved the advertisement, it would usually issue the co-op payment to Just for Feet in the form of a credit memo offsetting expenses on Just for Feet's merchandise purchases from that vendor. The company's CFO, controller, and VP of Operations directed the company's accounting department to book co-op receivables and related revenues that they knew were not owed by certain vendors, including Asics, New Balance, Nike, and Reebok. These fraudulent practices resulted in over \$19 million in fictitious pretax earnings being reported, out of total pretax income of approximately \$43 million. The SEC ultimately brought charges against a number of senior executives at Just for Feet and some vendor representatives.

**Required**

- a. What does it mean to approach an audit with an attitude of professional skepticism?
- b. What circumstances related to the accounting treatment of the vendor allowances should increase an auditor's professional skepticism?
- c. What factors might have caused the auditor to inappropriately accept the assertions by management that the vendor allowances should be reflected in the financial statements?
- d. Develop three probing questions related to the vendor allowances that the auditor should have asked in the audit of Just for Feet's financial statements.



**6-28 (OBJECTIVE 6-5)** The following independent scenarios describe auditor decisions made during an audit engagement.

1. Chen Li worked on the audit of American Healthcare Associations (AHA), which operates hospitals and outpatient centers in Texas and Oklahoma. Chen was assigned responsibility to audit the allowance for patient receivables. For the past several years, AHA's accounting policy required that the recorded allowance for patient receivables be set to equal the total amount of receivables over 180 days past due. Prior audit testing of the allowance in previous years has found that the subsequent write-offs of patient receivables has closely approximated the amount included in the allowance. During the current year audit, Chen examined the amount recorded in the general ledger allowance account and reconciled that amount to the amount shown in AHA's consolidated aged trial balance in the 180 days past due amount. Given that the dollar amounts agreed, Chen concluded that the allowance was in accordance with AHA accounting policy and fairly stated. While media reports and other industry publications suggested that recent regulatory changes in healthcare insurance were affecting patients' ability to pay, Chen concluded that AHA's allowance was fairly stated given the amounts complied with AHA's policy.
2. Sherry Zipersky was assigned responsibility for evaluating the goodwill impairment testing process at Georgia Metals, Inc. Because Georgia Metals' growth strategy was based mostly on acquisitions, the company had experience in performing annual impairment tests of goodwill. The client provided Sherry extensive information along with detailed schedules that documented management's testing approaches, and it provided her support for key assumptions made by management. Sherry reviewed the schedules in detail and tested the key calculations. While Sherry's firm has a

- b. How will the general ledger accounts in the trial balance most likely differ if the company were a retail store rather than a wholesale company? How will they differ for a hospital or a government unit?

← **6-30 (OBJECTIVE 6-8)** The following are various management assertions (a. through m.) related to sales and accounts receivable.

**Management Assertion**

- a. Receivables are appropriately classified as to trade and other receivables in the financial statements and are clearly described.
- b. Sales transactions have been recorded in the proper period.
- c. Accounts receivable are recorded at the correct amounts.
- d. Sales transactions have been recorded in the appropriate accounts.
- e. All required disclosures about sales and receivables have been made.
- f. All accounts receivable have been recorded.
- g. Disclosures related to receivables are at the correct amounts.
- h. Sales transactions have been recorded at the correct amounts.
- i. Recorded accounts receivable exist.
- j. Disclosures related to sales and receivables relate to the entity.
- k. Recorded sales transactions have occurred.
- l. There are no liens or other restrictions on accounts receivable.
- m. All sales transactions have been recorded.

**Required**

- a. Explain the differences among management assertions about classes of transactions and events, management assertions about account balances, and management assertions about presentation and disclosure.
- b. For each assertion, indicate whether it is an assertion about classes of transactions and events, an assertion about account balances, or an assertion about presentation and disclosure.
- c. Indicate the name of the assertion made by management. (*Hint:* See Table 6-3 on p. 159.)

**6-31 (OBJECTIVES 6-8, 6-10)** The following are specific balance-related audit objectives applied to the audit of accounts receivable (a. through h.) and management assertions about account balances (1 through 4). The list referred to in the specific balance-related audit objectives is the list of the accounts receivable from each customer at the balance sheet date.

**Specific Balance-Related Audit Objective**

- a. There are no unrecorded receivables.
- b. Uncollectible accounts have been provided for.
- c. Receivables that have become uncollectible have been written off.
- d. All accounts on the list are expected to be collected within one year.
- e. The total of the amounts on the accounts receivable listing agrees with the general ledger balance for accounts receivable.
- f. All accounts on the list arose from the normal course of business and are not due from related parties.
- g. Sales cutoff at year-end is proper.
- h. Receivables have not been sold or discounted.

**Management Assertion About Account Balances**

- |                 |                             |
|-----------------|-----------------------------|
| 1. Existence    | 3. Valuation and allocation |
| 2. Completeness | 4. Rights and obligations   |

**Required**

For each specific balance-related audit objective, identify the appropriate management assertion. (*Hint:* See Table 6-5 on p. 165.)

**6-32 (OBJECTIVES 6-8, 6-9)** The following are specific transaction-related audit objectives applied to the audit of cash disbursement transactions (a. through f.), management assertions about classes of transactions (1 through 5), and general transaction-related audit objectives (6 through 11).

**TABLE 6-3 Management Assertions for Each Category of Assertions**

PCAOB Auditing Standards Assertions	International Auditing Standards and AICPA Auditing Standards Assertions		
Assertions About Transactions, Balances, and Presentation and Disclosure	Assertions About Classes of Transactions and Events	Assertions About Account Balances	Assertions About Presentation and Disclosure
<i>Existence or occurrence</i> —Assets or liabilities exist at a given date, and recorded transactions have occurred during the period.	<i>Occurrence</i> —Transactions and events that have been recorded have occurred and pertain to the entity.	<i>Existence</i> —Assets, liabilities, and equity interests exist.	<i>Occurrence and rights and obligations</i> —Disclosed events and transactions have occurred and pertain to the entity.
<i>Completeness</i> —All transactions and accounts that should be presented in the financial statements are so included.	<i>Completeness</i> —All transactions and events that should have been recorded have been recorded.	<i>Completeness</i> —All assets, liabilities, and equity interests that should have been recorded have been recorded.	<i>Completeness</i> —All disclosures that should have been included in the financial statements have been included.
<i>Valuation or allocation</i> —Assets, liability, equity, revenue, and expense components have been included in the financial statements at appropriate amounts.	<p><i>Accuracy</i>—Amounts and other data relating to recorded transactions and events have been recorded appropriately.</p> <p><i>Classification</i>—Transactions and events have been recorded in the proper accounts.</p> <p><i>Cutoff</i>—Transactions and events have been recorded in the correct accounting period.</p>	<i>Valuation and allocation</i> —Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation adjustments are appropriately recorded.	<p><i>Accuracy and valuation</i>—Financial and other information is disclosed appropriately and at appropriate amounts.</p> <p><i>Classification and understandability</i>—Financial and other information is appropriately presented and described and disclosures are clearly expressed.</p>
<i>Rights and obligations</i> —The company holds or controls rights to the assets, and liabilities are obligations of the company at a given date.		<i>Rights and obligations</i> —The entity holds or controls the rights to assets, and liabilities are the obligation of the entity.	
<i>Presentation and disclosure</i> —The components of the financial statements are properly classified, described, and disclosed.	(See the international and AICPA assertions for presentation and disclosure.)	(See the international and AICPA assertions for presentation and disclosure.)	(See above assertions.)

standards and AICPA auditing standards separate the assertions related to transactions from the assertions related to account balances and presentation and disclosure, they also provide additional assertions related to the PCAOB valuation or allocation assertion, as shown in Table 6-3. The international auditing standards and AICPA auditing standards assertions are grouped so that assertions related across categories are included on the same table row.

**Assertions About Classes of Transactions and Events** Management makes several assertions about transactions. These assertions also apply to other events that are reflected in the accounting records, such as recording depreciation and recognizing pension obligations. As illustrated in Table 6-3, international auditing standards and AICPA auditing standards include three specific assertions that relate to the valuation or allocation assertion in the PCAOB auditing standards. The accuracy assertion addresses whether the transactions have been recorded at correct amounts. The classification assertion addresses whether transactions have been recorded in the appropriate accounts. The cutoff assertion addresses whether transactions have been recorded in the proper accounting period.