

MPU Sampling Plans

Question C10.5 is based on the following case.

Data relative to three MPU sampling plans are presented below.

	<u>1</u>	<u>2</u>	<u>3</u>
Tolerable misstatement	\$110,000	\$140,000	\$170,000
Size of population	5,000	6,000	8,000
Risk of incorrect rejection	10%	5%	10%
Estimated population standard deviation	\$80	\$105	\$125
Risks that misstatements accumulating to greater than tolerable misstatements will not be detected by:			
Internal control	50%	40%	40%
Analytical and other substantive procedures (excluding this test of details)	25%	50%	85%
Desired overall audit risk	5%	5%	5%
Inherent risk	100%	100%	100%

***C10.5 (LO 10) Challenging Classical variables mean-per-unit sampling**

- Analysis:* Determine an appropriate risk of incorrect acceptance for each population.
- Determine sample size:* Calculate sample size in each of the plans. Show computations.

Company X, Company Y

Question C10.6 is based on the following case.

Data relevant to the December 31, 2022, audit of accounts receivable in two of your clients is presented in the tabulation below.

	<u>Company X</u>	<u>Company Y</u>
Client's book value	\$90,000	\$200,000
Population size	1,000	2,000
Desired risk of incorrect acceptance	20%	30%
Desired risk of incorrect rejection	10%	5%
Tolerable misstatement	\$9,000	\$10,000
Estimated standard deviation	\$50	\$25

***C10.6 (LO 10) Challenging Mean-per-unit sampling**

- Determine sample size:* Determine sample size for each company using classical variables MPU estimation sampling.
- Analysis and evaluation:* Assume the total audited value of the Company X sample is \$13,600 and the standard deviation is \$52. Evaluate the sample results.
- Analysis and evaluation:* Assume the average of the sample audit values in the Company Y sample is \$90 and the standard deviation is \$30. Evaluate the sample results.

Cloud 9 - Continuing Case

Answer the following questions based on the information for Cloud 9 presented in the appendix to this text and the current and earlier chapters. You should also consider your answers to the case study questions in earlier chapters.

Required

- Consider and explain the effects of the opening of Cloud 9's first retail store on its accounts.
- Describe how this business change would affect the components of audit risk.
- What changes would you expect to see in inventory transactions and balances as Cloud 9 changes from a wholesale-only business to a retail and wholesale business? Be specific in your answer.
- Which inventory balance and transaction assertions would be most affected? Explain.
- Describe the population(s) and suggest a sampling approach for substantive testing for inventory.