Exam 2 Exhibits

Variable definitions:

ASR: allowance for sampling risk

AV_x: audited value for misstatement x

BP: basic precision

BV: book value

BV_x: book value for misstatement x

EF: expansion factor for expected misstatement

EM: expected misstatement

IA: incremental allowance for sampling risk

IA_x: incremental allowance for sampling risk for misstatement x

IC_x: incremental change in reliability factor for misstatement x

n: sample size

PM: projected misstatement

PM_x: projected misstatement for misstatement x

RF_x: reliability factor for misstatement x

SI: sampling interval

TM: tolerable misstatement

TP_x: tainting percentage for misstatement x

UML: upper misstatement limit

Formulas:

$$n = \frac{BV * RF_0}{TM - (EM * EF)}$$

$$UML = PM + ASR$$

$$PM = \sum PM_x$$

$$PM_x = (TP_x * SI) \ \boldsymbol{or} \ (BV_x - AV_x)$$

$$TP = (BV_x - AV_x)/BV_x$$

$$SI = \frac{BV}{n}$$

$$ASR = BP + IA$$

$$BP = RF_0 * SI$$

$$IA = \sum IA_x$$

$$IA_x = PM_x * (IC_x - 1) \ \boldsymbol{or} \ 0$$

$$IC_x = RF_x - RF_{x-1}$$

Table 1: Reliability Factors

Number of Overstatements	Risk of Incorrect Acceptance								
	1%	5%	10%	13%	15%	20%	25%	30%	37%
0	4.61	3.00	2.31	2.00	1.90	1.16	1.39	1.21	1.00
1	6.64	4.75	3.89	3.56	3.38	3.00	2.70	2.44	2.14
2	8.41	6.30	5.33	4.94	4.72	4.28	3.93	3.62	3.25
3	10.05	7.76	6.69	6.25	6.02	5.52	5.11	4.77	4.34
4	11.61	9.16	8.00	7.53	7.27	6.73	6.28	5.90	5.43
5	13.11	10.52	9.28	8.77	8.50	7.91	7.43	7.01	6.49
6	14.57	11.85	10.54	10.00	9.71	9.08	8.56	8.12	7.56
7	16.00	13.15	11.78	11.21	10.90	10.24	9.69	9.21	8.63
8	17.41	14.44	13.00	12.41	12.08	11.38	10.81	10.31	9.68
9	18.79	15.71	14.21	13.59	13.25	12.52	11.92	11.39	10.74
10	20.15	16.97	15.41	14.77	14.42	13.66	13.02	12.47	11.79

Table 2: Expansion Factors

	Risk of Incorrect Acceptance							
	1%	5%	10%	15%	20%	25%	30%	37%
Expansion Factor	1.90	1.60	1.50	1.40	1.30	1.25	1.20	1.15