AICPA AUDIT AND ACCOUNTING MANUAL 6/1/84

AICPA
AUDIT AND ACCOUNTING MANUAL

Nonauthoritative
Technical Practice Aids

AS OF JUNE 1, 1984

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

AUDIT AND ACCOUNTING MANUAL

Nonauthoritative
Technical Practice Aids

AS OF JUNE 1, 1984

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Published for the

American Institute of

Certified Public Accountants

by

Commerce Clearing House, Inc.
4025 W. Peterson Ave.
Chicago, Illinois 60646

TABLE OF CONTENTS

Section		Page
. . . .	How to Use This Volume	1
AAM 1000	Introduction	1001
AAM 3000	Engagement Planning and Administration	3001
	3100 Planning the Engagement	
	3200 Preparing an Engagement Letter	
	3300 Sample Engagement Letters	
	3350 Confirmation of Independence of Other Auditors	
	3400 New Client Reports	
	3500 Client Master Records	
	3600 Audit Assignment Controls	
AAM 4000	Internal Control	4001
	4100 Introduction	
	4200 General Approach	
	4250 Control Considerations in a Minicomputer Environment	
	4300 Illustrative Internal Accounting Control Questions—Small Business	
	4400 Illustrative Specific Internal Accounting Control Objectives and Related Questions—Medium to Large Business	
	4500 Flowcharts	
AAM 5000	Audit Approach and Programs	5001
	5100 Audit Approach	
	5200 Audit Programs	
	5400 Illustrative Audit Objectives and Audit Procedures	
AAM 6000	Working Papers	6001
	6100 Working Papers—General	
	6200 Basic Elements of Format	
	6300 Content of Working Papers	
	6400 Organization and Filing (Indexing)	
	6500 Sample Working Papers	
AAM 7000	Correspondence, Confirmations & Representations	7001
	7100 Control of Confirmations and Correspondence	
	7200 Requests for Confirmations and Related Materials	
	7300 Inquiries to Legal Counsel	
	7400 Representation Letters	

Section		Page
AAM 8000	Disclosure Checklists	8001
	8100 Disclosure Checklists—General	
	8200 Auditors' Reports Checklist	
	8300 Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist	
	8400 Financial Statements and Notes Checklist	
	8500 Specialized Industries	
AAM 9000	Review and Report Processing	9001
	9100 Review Procedures	
	9500 Report Processing	
AAM 10,000	Accountants' Reports	10,001
	10,100 Format of Accountants' Reports	
	10,210 Unqualified Opinions	
	10,220 Adverse Opinions	
	10,230 Disclaimers of Opinion	
	10,240 Qualified Opinions	
	10,245 Information Accompanying Audited Financial Statements	
	10,250 Engagements to Report on Internal Accounting Control	
	10,260 Special Reports	
	10,270 Unaudited Financial Statements of a Public Entity	
	10,280 Lack of Independence	
	10,300 Review of Interim Financial Information	
	10,400 Accountant's Report on Compilation of Financial Statements of a Nonpublic Entity	
	10,500 Accountant's Report on Review of Financial Statements of a Nonpublic Entity	
	10,550 Accountant's Report on Condensed Financial Statements and Selected Financial Data	
	10,600 Reports on Personal Financial Statements	
AAM 11,000	Financial Statements	11,001
	11,100 General Comment on Illustrative Financial Statements	
	11,200 Illustrative Presentations of Financial Position	
	11,300 Illustrative Presentations of the Results of Operations	
	11,400 Illustrative Presentations of Ownership Equity	
	11,500 Illustrative Presentations of Changes in Financial Position	
	11,600 Illustrative Notes to Financial Statements	
	11,700 Illustrative Financial Statements—Other Comprehensive Bases of Accounting	
AAM	Appendixes	20,001

HOW TO USE THIS VOLUME

Scope of the Volume...

This volume, which is a reprint of the looseleaf edition, brings together for continuing reference a set of nonauthoritative audit tools and illustrations prepared by the staff of the Technical Information Division of the American Institute of Certified Public Accountants.

How This Volume Is Arranged...

The contents of this volume are arranged as follows:

Introduction

Engagement Planning and Administration

Internal Control

Audit Approach and Programs

Working Papers

Correspondence, Confirmations & Representations

Disclosure Checklists

Review and Report Processing

Accountants' Reports

Financial Statements

How to Use This Volume...

The arrangement of material is indicated in the general table of contents at the front of the volume. There is a detailed table of contents covering the material within each major division.

The major divisions are subdivided into sections, each with its own section number. Each paragraph within a section is decimally numbered. For example, AAM section 7100.01 refers to the first paragraph of section 7100, *Control of Confirmations and Correspondence.* Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.

The *AICPA Professional Standards* is referenced by the use of the abbreviation AU (Auditing) or AR (Accounting and Review Services).

The *FASB Accounting Standards Current Text* is referenced in a similar manner by the use of the abbreviation AC before the section and paragraph numbers. The *Current Text* contains an abridged version of the currently effective financial and reporting standards, as amended.

Quotations of accounting standards in this volume are derived from the original pronouncements and may have been editorially changed in the *Current Text.*

The Appendixes provide cross references from pronouncements of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board to sections in the text.

AAM Section 1000

INTRODUCTION

> This manual has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

.01 This manual has been prepared by the staff of the American Institute of Certified Public Accountants and issued as a nonauthoritative kit of practice aids. The materials included in it are designed to serve as working tools and illustrations for timesaving purposes. They are not intended as a substitute for the professional judgments which must be applied by practitioners in any engagement. The manual, where practicable, offers choices and alternatives rather than particular positions. The manual is not a substitute for authoritative technical literature and users are urged to refer directly to applicable authoritative pronouncements for the text of technical standards.

.02 Some sections of the manual include quotations from Statements on Auditing Standards and other authoritative pronouncements. Those quotations are intended only to illustrate certain matters, not to serve as a substitute for careful study of the relevant pronouncements. References are made throughout the manual to the original authoritative pronouncements and to their section numbers in *AICPA Professional Standards* and the *FASB Accounting Standards Current Text* to help users locate those authoritative pronouncements.

.03 The authors hope that the manual will be helpful to local firms and practitioners in the conduct of their audit and accounting practice. However, no generalized material, such as that included in this manual, can be a substitute for development and implementation by a firm of a system of quality control which is appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice.

.04 The manual is in looseleaf format in anticipation of updating and expansion. Changes are expected to arise from three main sources:

(1) Comments and suggestions from practitioners. Since this manual is a product of AICPA staff, not of a committee of practi-

tioners, it is particularly important that practitioners advise the staff of any suggestions for material that could be improved or added.

(2) Issuance of new official pronouncements.

(3) Other additions to or deletions from the manual as a result of continued staff study.

Comments and suggestions should be addressed to:

Technical Information Division
AICPA
1211 Avenue of the Americas
New York, NY 10036

.05 The authors wish to acknowledge the contributions of Dennis Alfredo, Mary Greenstein, Richard Pannell, Richard Rikert and Jack Shohet of the technical information division, and the secretarial services of Gail Shoffner and Carolyn Piccoli.

George R. Dick, Director, Technical Information Division
Morris W. Wishnack, Manager, Technical Information Division

Thomas P. Kelley, Vice President—Technical

AAM Section 3000

ENGAGEMENT PLANNING AND ADMINISTRATION

This manual is a nonauthoritative kit of practice aids and accordingly, does not include extensive explanation or discussion of authoritative pronouncements. Users of this manual are urged to refer directly to applicable authoritative pronouncements when appropriate.

The samples are for illustrative purposes only. They are included as conveniences for users of this manual who may want points of departure when drafting engagement letters to meet their individual needs.

Much of the material in this section has been extracted from the MAP Handbook and has been edited for this manual. Information with respect to compilation and review engagements has been taken from Statement on Standards for Accounting and Review Services No. 1.

TABLE OF CONTENTS

Section		Paragraph
3100	Planning the Engagement	.01-.08
3200	Preparing an Engagement Letter	.01-.14
	Reasons for Engagement Letters	.06-.07
	Special Considerations	.08
	Checklists for Engagement Letters	.09
	Client Approval	.10
	Addressee of Letter	.11
	Investigatory Procedures for Individuals	.12-.13
	Filing of Engagement Letters	.14
3300	Sample Engagement Letters	.01-.12
	Audit Engagement Leading to Opinion	.02
	Audit Engagement Leading to Opinion (Including Financial Information for Form 10-K)	.03

Section		Paragraph
3300	Sample Engagement Letters—Continued	
	Change in Circumstances from Those Contemplated in Original Engagement Letter	.04
	Conditions Encountered Which Do Not Permit Expression of Opinion as Anticipated in Original Engagement Letter	.05
	SEC Engagement: Initial Registration, Form S-1	.06
	Compilation of Financial Statements and Tax Services	.07
	Review of Financial Statements and Tax Services	.08
	Sample Engagement Memorandum (When No Formal Engagement Letter is Sent)	.09
	Audits of Personal Financial Statements	.10
	Compilation of Personal Financial Statements	.11
	Review of Personal Financial Statements	.12
3350	Confirmation of Independence of Other Auditors	.01-.02
3400	New Client Reports	.01-.07
	New Client Report—Sample A	.05
	New Client Report—Sample B	.06
	New Client Report—Sample C—Designed as a Client Data Sheet	.07
3500	Client Master Records	.01-.07
	Client Master Record—Sample A	.05
	Client Master Record—Sample B	.06
	Client Master Record—Sample C	.07
3600	Audit Assignment Controls	.01-.12
	Audit Time Budget—Sample A	.07
	Audit Time Budget—Sample B	.08
	Audit Time Analysis (Short Form)	.09
	Audit Time Analysis (Long Form)	.10
	Weekly Progress Report	.11
	Engagement Status Report	.12

The next page is 3101.

AAM Section 3100

Planning the Engagement

.01 An important part of every engagement is the planning stage. It is during this phase of the engagement that the partner and the staff obtain (or renew) the necessary level of knowledge of the client's business and the industry in which it operates and develop an overall strategy for the expected conduct and scope of the engagement. Although it is not required by authoritative auditing literature, an engagement letter—discussed in the next section—makes good business sense. It should be prepared before any significant work is undertaken on the engagement.

.02 The need for planning is highlighted by item C, Rule 201, General Standards, AICPA Code of Professional Ethics, which states that:

> A member shall adequately plan and
> supervise an engagement.

.03 Planning is also addressed in the first standard of field work of Generally Accepted Auditing Standards; SAS No. 22, "Planning and Supervision" (AU section 311), provides authoritative interpretive guidance on the first standard of field work.

.04 Aside from the requirements in authoritative literature, proper planning makes good business sense.

.05 Two common planning vehicles are the planning memo and the planning checklist. The style and complexity of these documents will depend on firm preference and engagement needs. The same memo or checklist may be used in the review process to ensure that the items highlighted in the planning phase are given adequate attention during the audit engagement.

.06 The following list of topics to consider in planning an audit engagement is taken from SAS No. 22:

- Matters relating to the entity's business and the industry in which it operates, such as type of business, types of products and services, capital structure, related parties, locations and production, distribution and compensation methods. Also, economic conditions, government regulations, changes in technology, accounting practices common to the industry, competitive conditions, and, if available, financial trends and ratios should be considered.

- The entity's accounting policies and procedures.
- Anticipated reliance on internal accounting control.
- Preliminary estimates of materiality levels for audit purposes.
- Financial statement items likely to require adjustment.
- Conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities or the existence of related party transactions.
- The nature of reports expected to be rendered.

.07 SAS No. 22 notes that "Procedures that an auditor may consider in planning his examination usually involve review of his records relating to the entity and discussion with other firm personnel and personnel of the entity." It provides the following examples of those procedures:

- Reviewing correspondence files, prior year's audit working papers, permanent files, financial statements, and auditor's reports.
- Discussing matters that may affect the examination with firm personnel responsible for non-audit services to the entity.
- Inquiring about current business developments affecting the entity.
- Reading the current year's interim financial statements.
- Discussing the type, scope, and timing of the examination with management of the entity, the board of directors, or its audit committee.
- Considering the effects of applicable accounting and auditing pronouncements, particularly new ones.
- Coordinating the assistance of entity personnel in data preparation.
- Determining the extent of involvement, if any, of consultants, specialists, and internal auditors.
- Establishing the timing of the audit work.
- Establishing and coordinating staffing requirements.

.08 SAS No. 22 requires the preparation of a written audit program as part of the planning process. Section 5000 of this manual discusses audit programs.

The next page is 3201.

AAM Section 3200

Preparing an Engagement Letter

.01 In an engagement letter, the firm and the client indicate their mutual understanding and agree to the nature and terms of the engagement. Engagement letters are not a professional requirement, but a matter of sound business practice. They cover the scope of services rendered and the responsibility the firm assumes. Therefore, they should be prepared with the care exercised in entering into other contracts.[1]

.02 Any limitations the client imposes on the scope of the audit are specifically stated. Every letter covering audit, compilation and review, or accounting services should point out the limitations in the accountant's responsibility for the discovery of fraud and other irregularities.

.03 The engagement letter should also describe the terms of billing and payment. If unusual or extraordinary services are to be performed, the engagement letter should completely describe them.

.04 If the auditor has reason to believe the client may publish all or a portion of an audit report, he should advise the client (preferably in the engagement letter) that firm policy is to read printer's proofs of the report and any other accompanying material. This precaution will protect both the client and CPA against condensation of financial statements, omission of footnotes, erroneous layout, or other errors such as misstatement of figures used in a president's letter, other narrative or statistics.

.05 *An engagement letter should be used for every engagement.* A letter need not be issued more often than annually. Thus, interim audits or unaudited financial statement preparation can all be provided for in one annual letter. The letter should be sent to the client in duplicate so he may sign a copy and return it for the CPA's files. Alternatively, the CPA may decide not to request that the client sign and return a copy of the letter. In that case, the letter should be sent to the client with an additional paragraph stating that, unless the client replies to the contrary, the CPA will assume the client agrees to the arrangements described in the letter. In those rare instances when the CPA decides that even this approach is not suitable, an engagement memorandum should be prepared for the file. This should

[1] Paragraph 8 of SSARS No. 1 states that "The accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed."

provide all relevant information which would have been included in an engagement letter.

.06

Reasons for Engagement Letters

1. *Avoid misunderstanding with the client.* In today's environment, an engagement letter is needed for both old and new clients. To avoid misunderstanding, the engagement letter describes in detail the services to be rendered, the fee, and other terms and conditions of the engagement. Oral agreements may result in differences of recollection or understanding between the CPA and the client. They become completely valueless on the death of either.

2. *Avoid misunderstandings with the staff.* The members of the staff working on the engagement must have a complete understanding of what is required of them. A copy of the engagement letter in the working papers provides them an authoritative reference to supplement their oral instructions. This will eliminate confusion and misunderstanding as to the type of engagement to be performed, the date and period covered by the financial statements, and the nature of the report expected to be rendered.

3. *Legal liability.* The engagement letter should establish the scope and the nature of the accountant's contractual obligation to his client by setting forth, clearly and specifically, the duties the accountant has agreed to perform. Many adverse consequences may result from failing to obtain a written engagement letter.

4. *Practice management.* Generally, the executive (managing) partner would review an engagement letter before the firm issues it. A timely review may be the vehicle that permits the executive partner to correct or amend the terms of the engagement, review the proposed fee and method of payment, and set up guidelines to minimize possible collection problems.

5. *Contractual obligation.* Engagement letters recognize that a contract is created when the accountant agrees to render services and a client agrees to pay for them. The engagement letter should be clear-cut in delineating the duties and responsibilities of the client and of the firm.

6. *Other.* An engagement letter permits the orderly assessment and review by partners and staff of the services performed and the terms of the engagement. This review facilitates drafting extensions or amendments to current or succeeding years' engagements.

.07 Some firms use one engagement letter to cover several types of services; others use separate engagement letters for each service rendered. In any case, firms should consider keeping separate internal records for time incurred on the separate types of services.

.08

Special Considerations

1. Type of engagement (audit, compilation or review, or other accounting service).

2. Do the circumstances preclude an unqualified opinion? Examples:

   a. The auditor is retained after the beginning of the client's fiscal year and did not observe inventories or confirm receivables at the beginning of the year and was unable to satisfy self through application of alternative procedures.

   b. The client imposes restrictions on the scope of the audit and anticipated effect on the report. (SAS No. 2, paragraph 12; AU section 509.12)

   c. Significant litigation or other matters exist which may affect the opinion.

3. Should fee be stated as a range, in hourly rates, as standard per diem charges for the engagement, or (in unusual cases) as a maximum or flat fee?

4. To whom should reports be addressed?

5. How many copies of the report and to whom distributable?

6. Deadlines for reports or analyses.

7. Out-of-pocket costs.

8. Additional work not contemplated in original engagement.

9. Condition of records or circumstances other than those contemplated in engagement letter (e. g., deficient internal control, etc.).

10. Retainer.

11. One-time engagements.

12. Start-up costs when client changes accountants.

13. Underwriters' requirements in connection with public offerings.

14. Long-time clients who have not previously been requested to approve engagement letters.

15. Part of work to be done by other accountants.

.09

Checklists for Engagement Letters

1. *Items ordinarily covered in engagement letters:*

a. Name of entity (and subsidiaries, if any) and its year end.

b. Statement(s) to be examined, compiled, or reviewed.

c. Scope of services, as detailed as necessary—include limitations imposed by client.

d. Type of opinion, disclaimer or other report to be rendered.

e. Disclaimer of responsibility for detecting fraud.

f. Obligations of the client's staff to prepare schedules and statements (see checklist 2, below).

g. Requirement that accountant read all printed material in which his report appears.

h. Responsibility for preparation or review of tax returns and subsequent tax examinations.

i. Fee or method of determining fee (see section 3300).

j. Frequency of billing and client's obligations for payment, including retainer if applicable.

k. Provision for client's acceptance signature and date.

l. Expression of thanks for being selected as auditors or to perform other services.

m. In new engagements, the client should take the responsibility for getting the cooperation of the prior accountant.

2. *Preparation work to be performed by client's staff.* The following is a checklist of instructions to a client's accounting staff. It includes analyses a CPA may expect them to prepare for his examination. Either include this list (or part of it) in the engagement letter, or refer to it and then submit it as a separate memorandum.

- Balance the general ledger.
- Prepare a reconciliation for each bank account.
- Fill in and sign bank confirmation forms, to be provided by the CPA.
- Prepare a trade accounts receivable aging.
- Prepare accounts receivable confirmation letters, using drafts to be provided by the CPA.
- Prepare a schedule of accounts receivable from officers and employees.
- Prepare a schedule of bad debts written off during the year.

- Prepare a schedule of notes receivable. The notes should be available for inspection.
- Prepare a schedule of transactions with affiliated enterprises.
- Price, extend, and foot the original inventory sheets, and have them available.
- Analyze all transactions affecting marketable securities.
- Prepare an insurance schedule. The policies should be available for inspection.
- Prepare a schedule of property and equipment additions and retirements.
- Prepare a depreciation schedule.
- Prepare a schedule of life insurance for officers.
- Prepare a schedule of accounts payable. The creditor's regular monthly statements for (*date*) should be retained and made available.
- Prepare a schedule of notes payable.
- The corporate stock book and minutes should be up to date and available for inspection.
- Prepare a schedule of all transactions to partners' capital and drawing accounts.
- A copy of the partnership agreement or corporate charter should be available for inspection.
- Copies of all leases, including equipment rental contracts, should be available for inspection.
- Copies of employment contracts with salesmen or executives should be available for inspection.
- Copies of pension, profit-sharing, deferred compensation, and stock option agreements, and letters of acceptance from the Treasury Department should be available for inspection.
- Prepare a schedule of repairs in excess of $........
- Prepare a schedule of each officer's salary and expense account payments.
- Prepare a schedule of contributions.
- Prepare a schedule of tax expense.
- Prepare a schedule of professional fees.

3. *Optional inclusions in engagement letter*

a. Description of particular audit procedure, if requested by client or deemed necessary for protection of the auditor (the detailed audit program should not be made available to client personnel, orally or otherwise).

b. Extent and timing of interim auditing.

c. Name of client's personnel to be contacted during engagement.

d. Review of internal control and report thereon (this would be a special engagement, not a part of the normal audit routine).

e. Interim contact and cooperation with internal auditor.

f. List of services specifically excluded.

g. Acknowledgement by the client of its responsibility for the financial statements. (Because auditors of smaller, nonpublic entities often may maintain accounting records, prepare financial statements, and advise management about appropriate accounting principles, such an acknowledgement may be particularly appropriate for such clients.)

h. A statement that the client will be informed of any material weaknesses in internal accounting control that come to the auditor's attention during his audit of financial statements. (Such a communication, either orally or in writing, is required by SAS No. 20, *Required Communication of Material Weaknesses in Internal Accounting Control* [AU section 323]).

4. *Common engagement letter deficiencies*

a. Reference in the letter to examination of the books and records rather than the examination of financial statements.

b. Adverse comments about other firms.

c. Failure to specify *in detail* the services to be rendered when a maximum fee is quoted.

d. Inclusion of a review of internal control as one of the services when what is really intended is the study and evaluation of internal accounting control as required by auditing standards.

e. Failure to identify accounting or other problems which may have an effect on the opinion.

f. Failure to change, in writing, the terms of the engagement when conditions are found to be different (such as the inability to express an opinion without extensive additional auditing because internal accounting control was found to be deficient).

g. Failure to include fee basis and payment terms.

h. Failure to identify subsidiaries.

i. Failure to identify specific tax returns to be prepared.

Client Approval

.10 It is recommended that the client's written approval of general arrangements for the engagement be secured by the accountant before proceeding with the engagement (especially in new engagements). The addressee of the letter is usually the one asked to approve the engagement. In some situations, the accountant may not feel it advisable to send a client an engagement letter which requests his signature. An alternative approach might be to send the client a letter confirming the terms of the engagement, without asking him to sign it, but asking him to reply if he does *not* agree with the terms.

Addressee of Letter

.11 Ordinarily, the accountant should address the letter to whomever retained the firm. If it is a corporate client's board of directors, the letter should be addressed to the board, its chairperson, or the chief executive, depending on the arrangement. If the CPA is appointed by an audit committee, it is appropriate to address the letter to the committee chairperson. If the engagement was arranged with a corporate official, the letter may be addressed to him, personally, indicating his title, followed by the name of the corporation.

Investigatory Procedures for Individuals

.12 When credit information is requested about individuals who are new clients, the investigative procedures are subject to the Fair Credit Reporting Act of 1971.

.13 An individual should be informed in writing that an investigative consumer report, including information as to his character, general reputation, personal characteristics and mode of living, is being made. The individual should also be advised, within three days of the time the report is requested, that he may within a reasonable period of time, by written request, be furnished disclosure of the nature and the scope of the investigation.[2]

Filing of Engagement Letters

.14 The signed engagement letter (or original of the confirming letter) is a contract and should be filed in the client's permanent file. A copy may also be filed with the current working papers, if desired, because of the possible overlapping of billing and collecting as compared to the term of the actual engagement. This also permits easy access when reference to the previous year's letter is needed to prepare the letter for the following year's engagement.

The next page is 3301.

[2] For a more complete discussion, see Carlos Martinez, "A Guide to the Fair Credit Reporting Act," *The Practical Lawyer,* December 1972.

AAM Section 3300

Sample Engagement Letters

.01 Following are illustrative engagement letters (and one engagement memorandum). They may be used as guides in the design of specific letters, tailored to satisfy the terms of a particular engagement.

.02 Audit Engagement Leading to Opinion

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. Thomas Thorp, President
Anonymous Company, Inc.
Route 32
Nowhere, New York 10000

Dear Mr. Thorp:

This will confirm our understanding of the arrangements for our examination of the financial statements of Anonymous Company, Inc., for the year ending (Date).

We will examine the Company's balance sheet at (Date), and the related statements of income, retained earnings, and changes in financial position for the year then ended, for the purpose of expressing an opinion on them. Our examination will be made in accordance with generally accepted auditing standards and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances.

Our procedures will include tests (by statistical sampling, if feasible) of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected customers, creditors, legal counsel, and banks. At the conclusion of our examination, we will request certain written representations from you about the financial statements and matters related thereto.

Our engagement is subject to the inherent risk that material errors, irregularities, or illegal acts, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of any such matters that come to our attention.

We will review the Company's federal and state [identify states] income tax returns for the fiscal year ended (Date). These returns, we understand, will be prepared by the controller.

Further, we will be available during the year to consult with you on the tax effects of any proposed transactions or contemplated changes in business policies.

Our fee for these services will be at our regular per diem rates, plus travel and other out-of-pocket costs. Invoices will be rendered every two weeks and are payable on presentation.

We are pleased to have this opportunity to serve you.

If this letter correctly expresses your understanding, please sign the enclosed copy where indicated and return it to us.*

Very truly yours,

SWIFT, MARCH & COMPANY

....

Partner

APPROVED:

By ....

Date ....

*Some accountants prefer not to obtain an acknowledgement, in which case their letter would omit the paragraph beginning "If this letter . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . ."

.03 Audit Engagement Leading to Opinion (Including Financial Information for Form 10-K)

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. Frederick Mead, President
Thor Tool Co., Inc.
473 Canyon Road
Noplace, NJ 07000

Dear Mr. Mead:

This letter confirms our arrangements with Thor Tool Co., Inc. for the year ended (Date).

We will examine the Corporation's balance sheet as of (Date), and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination will be made in accordance with generally accepted auditing standards and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances.

Our procedures will include tests (by statistical sampling, if feasible) of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected customers, creditors, legal counsel, and banks. At the conclusion of our examination, we will request certain written representations from you about the financial statements and matters related thereto.

Your accounting department personnel will prepare the necessary detailed trial balance and supporting schedules. We will assemble and examine the financial information required for Form 10-K and for the annual report to stockholders. Both must be submitted to us for approval before publication.

Our engagement is subject to the inherent risk that material errors, irregularities, or illegal acts, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of any such matters that come to our attention.

Fees for these services will be at our standard per diem rates. Invoices, including out-of-pocket expenses, will be submitted every two weeks as the work progresses, and are payable on presentation. We estimate that our fee for this engagement will be between $10,000 and $12,000. Should any situation arise that would materially increase this estimate, we will, of course, advise you.

Please indicate your agreement to these arrangements by signing the attached copy of this letter and returning it to us.*

Sincerely,

SWIFT, MARCH & COMPANY

. . . .

Partner

APPROVED:

By . . . .

Date . . . .

*Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "Please indicate your . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . ."

.04 Change in Circumstances from Those Contemplated in Original Engagement Letter

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. James Johnson, Treasurer
Birdie Country Club
64 Eagle Road
Noplace, New York 10000

Dear Mr. Johnson:

As we agreed in our original engagement letter dated (Date) we are notifying you that our examination of your (Date) financial statements requires additional procedures.

We have found that certain guest checks are held for only three months after they are paid. Thus, a substantial number of guest checks are not available for examination. Fortunately, your system of internal control allows us to use alternative procedures to satisfy ourselves on this part of the examination. However, this will require substantially more time than examining guest checks.

The fee for these additional services will be billed at our standard per diem rates and added to the $5,000 fee quoted in our previous letter.

The problem has been discussed with your controller, who assured us that in the future all guest checks will be kept for two years.

Please indicate your acceptance of these added terms by signing the copy of this letter and returning it to us.*

Very truly yours,

SWIFT, MARCH & COMPANY

. . . .
Partner

APPROVED:
By . . . .
Date . . . .

---

* Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "Please indicate your . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . ."

.05 Conditions Encountered Which Do Not Permit Expression of Opinion as Anticipated in Original Engagement Letter

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Ms. Helene Brown, President
ZYX, Inc.
1234 West Street
Noplace, New York 10000

Dear Ms. Brown:

Our March 15, 197X letter described our present engagement as an examination for the purpose of expressing an opinion on the company's (Date) financial statements. This letter is to inform you that because of the circumstances described below, we will be required to qualify our opinion on these statements.

As you know, the Internal Revenue Service has proposed total income tax assessments of approximately $180,000 for the three fiscal years ended (Date). Your tax counsel has advised us that although you have a defensible position and will protest the assessments, counsel cannot offer an opinion as to your ultimate liability. No provision for this assessment or any portion of it is included in your (Date) financial statements, nor do you feel any is necessary. You agreed, however, that the proposed assessment and its present status will be disclosed in the notes to the financial statements.

Because of the uncertainty as to your ultimate liability, we will be unable to express an unqualified opinion. Our report will state that the financial statements are subject to the effects of such adjustments, if any, as might have been required had the outcome of this income tax matter been known.

You and your tax counsel have advised that you will inform us of any new developments in the proposed assessment before our report is issued so that we may consider their effect on your financial statements and on our report.

Very truly yours,
SWIFT, MARCH & COMPANY

. . . .

Partner

NOTE: The client is not asked to sign this letter. Its purpose is to inform him of the altered circumstances and the effect on the opinion. There is no change in the terms of the engagement. However, it might be desirable to have the client acknowledge receipt of this letter by signing a copy and returning it where—for example—it is a problem client, or when there has been a history of misunderstandings.

.06 SEC Engagement: Initial Registration, Form S-1

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. John James, President
Odin Company, Inc.
3 Bay Drive
La Mancha, California 99999

Dear Mr. James:

This letter confirms the arrangements for our services for the registration statement Odin Company will file with the Securities and Exchange Commission.

We will examine the consolidated balance sheet of Odin Company, Inc., as at December 31, 197X, and the related statements of income, retained earnings, and changes in financial position for the three years then ended, which will be included in a Form S-1 registration statement. Our examination will be made in accordance with generally accepted auditing standards and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances. We will assemble and examine the financial information necessary for the S-X schedules in the registration statement.

We will perform these services as expeditiously as possible. Your accounting personnel will assist us and cooperate in the timely preparation of trial balances, schedules and account analyses, and provide clerical assistance as needed. Mr. John Brown of the law firm of Green & Brown will be liaison with counsel.

If during our engagement we find that we are unable to express an unqualified opinion on the financial statements or that we are otherwise unable to comply with the requirements of Form S-1, we will notify you of the problems encountered.

We will also fulfill the portion of the underwriter's agreement directed to the independent accountants, provided the requirements are within the purview of Statement on Auditing Standards No. 38 (Letters for Underwriters) as amended by Statement on Auditing Standards No. 43, paragraph 8, issued by the American Institute of Certified Public Accountants, and provided the material can properly be reported on by accountants pursuant to that Statement. In this regard, we require that a copy of the tentative underwriting contract be given us as soon as it is available. Should that portion of the underwriting contract that deals with the details of the comfort letter be available before the balance of the underwriting contract is completely drafted, you will arrange for us to receive a copy of it.

Our engagement is subject to the inherent risk that material errors, irregularities, or illegal acts, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of any such matters that come to our attention.

It is our policy that all printer's proofs of reports to be filed with the Securities and Exchange Commission be submitted to us for approval. This requirement extends to the entire registration statement and all other material which accompanies the financial statements.

Our fee for services will be computed at our standard per diem rates, and will be billed to you, together with out-of-pocket costs, every two weeks. Invoices are due and payable on presentation. Before our services begin, you have agreed to pay us a $15,000 retainer, which will be applied to the final billing for this engagement.

We appreciate your confidence in our firm by retaining us as your independent certified public accountants.

If this letter correctly expresses your understanding, please sign the enclosed copy where indicated and return it to us, together with your check for $15,000.

Sincerely,

SWIFT, MARCH & COMPANY

. . . .

Partner

APPROVED:

By . . . .

Date . . . .

.07 Compilation of Financial Statements and Tax Services

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Noplace, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings, and changes in financial position of ZYXWV Freight Corporation for the year 19XX. We will not audit or review such financial statements. Our report on the annual financial statements of ZYXWV Freight Corporation is presently expected to read as follows:

   We have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

   A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

   Our report on your interim financial statements, which statements will omit substantially all disclosures, will include an additional paragraph that will read as follows:

   Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

If, for any reason, we are unable to complete the compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will assist your bookkeeper in adjusting the books of account so that he will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide us with a detailed trial balance and any supporting schedules we require.

3. We will also prepare the federal and state [identify states] income tax returns for ZYXWV Freight Corporation for the fiscal year ended December 31, 19XX.

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services . . . .

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

. . . .

Swift, March & Company

Acknowledge:
ZYXWV Freight Corporation

. . . .

President

. . . .

Date

* Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If the foregoing . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . ."

.08 Review of Financial Statements and Tax Services

SWIFT, MARCH & COMPANY Certified Public Accountants

(Date)

Mr. Tom Jones, President
ZYXWV Freight Corporation
648 Crystal Lane
Nowhere, Anystate 00000

Dear Mr. Jones:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheet of ZYXWV Freight Corporation as of (Date), and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them. Our report on the financial statements is presently expected to read as follows:

> We have reviewed the accompanying balance sheet of ZYXWV Freight Corporation as of (Date), and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of ZYXWV Freight Corporation.
>
> A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
>
> Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will provide your chief accountant with such consultation on accounting matters as he may require in adjusting and closing the books of account and in drafting financial statements for our review. Your chief accountant also will provide us with a detailed trial balance and any supporting schedules we require.

3. We will also prepare the federal and state [identify states] income tax returns for ZYXWV Freight Corporation for the fiscal year ended (Date).

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services....

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.*

Sincerely yours,

....

(Signature of accountant)

Acknowledge:
ZYXWV Freight Corporation

....
President

....
Date

* Some accountants prefer not to obtain an acknowledgment, in which case their letter would omit the paragraph beginning "If the foregoing . . ." and the spaces for the acknowledgment. The first paragraph of their letter might begin as follows: "This letter sets forth our understanding of the terms and objectives of our engagement . . . ."

.09 Sample Engagement Memorandum (When No Formal Engagement Letter Is Sent)

Engagement Memorandum

(Date)

Client	ABC, Inc.
Address	711 Easy Street, La Mancha, Calif. 99999
Phone	QUincy 7-1234
Final arrangements made with	Oscar Brown, President
Date final arrangements made	February 15, 197X at a meeting in the ABC offices
Client's personnel responsible for accounting matters	Tom Smith, Treasurer Joe Green, Controller
Responsibilities of client's personnel in preparation for engagement	Trial balance of G/L and completion of schedules, a list of which we will submit two weeks before beginning of engagement
Reports to be addressed to	Board of Directors (twelve copies)
Financial statements to be examined	Balance sheet at March 31, 197X and statements of income, retained earnings, shareholders' equity and changes in financial position for year ended March 31, 197X
Nature of engagement	Opinion audit and federal and state income tax returns for year ended March 31, 197X
Date audit to commence	Approximately April 24, 197X (check with controller about April 10)

Estimated time required	About three weeks
Staff requirements	Manager, supervisor, an in-charge senior, and two staff assistants
Billing arrangements	Every two weeks, at standard plus out-of-pocket costs; invoices to attention of Tom Smith; payable on presentation
Special accounting problems	Client was involved in a substantial sale and lease-back transaction during the year
	Imputed interest may be required on long-term liabilities resulting from purchase of business
Other comments	Client is presently negotiating with machinists union

.10 Audit of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will examine the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. Our examination will be conducted in accordance with generally accepted auditing standards and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances. The purpose of our examination is to enable us to express an opinion regarding whether the financial statements are fairly presented in conformity with generally accepted accounting principles. Our report on the financial statements is presently expected to read as follows:

[*Standard Audit Report*]

2. We will also [*discussion of other services, if any*].

Our engagement is subject to the inherent risk that material errors, irregularities, or illegal acts, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

[Source: AICPA *Personal Financial Statements Guide.*]

.11 Compilation of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will compile, from information you provide, the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not audit or review such financial statements. Our report on the financial statements is presently expected to read as follows:

   [*Standard Compilation Report*]

   If, for any reason, we are unable to complete our compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also [*discussion of other services, if any*].

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that might exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

[Source: AICPA *Personal Financial Statements Guide.*]

.12 Review of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will review the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them. Our report on the financial statements is presently expected to read as follows:

   [*Standard Review Report*]

   If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also [*discussion of other services, if any*].

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that might exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

[Source: AICPA *Personal Financial Statements Guide.*]

The next page is 3351.

AAM Section 3350

Confirmation of Independence of Other Auditors

.01 Following is an illustrative letter to be sent by the principal auditor requesting other auditors' confirmation of their independence, when other auditors have examined financial statements of one or more subsidiaries, divisions, branches, components or investments included in the financial statements on which the principal auditor is reporting.

.02 Request for Confirmation of Independence of Other Auditors *

(Prepare on Principal Auditor's Letterhead)

(Date)

(Name)

(Address)

We have been engaged to examine the (consolidated) financial statements of (insert name) as of (insert date) and for the year then ended. In connection with that examination, we will rely on (and refer to) your report on the financial statements of (insert name of subsidiary, division, branch, component, or investment) included in those financial statements. In accordance with SAS No. 1, section 543, "Part of Examination Made by Other Independent Auditors," (AICPA *Professional Standards,* Volume 1, section 543) I am inquiring concerning your independence with respect to these entities. Please indicate in the space below whether you are independent under the requirements of the AICPA Rules of Professional Conduct (and the Securities and Exchange Commission) with respect to (insert name of principal auditor's client) and (insert name of subsidiary, division, branch, component, or investment). Return a copy

* Based on the particular circumstances, the principal auditor may want to include the other matters discussed in SAS No. 1, section 543.10, "Part of Examination Made by Other Independent Auditors," (*Professional Standards,* Volume 1, section 543.10), in his letter to the other auditor.

of this letter to us by (insert date) in the enclosed, self addressed envelope.

Very truly yours,

(Principal auditor's signature)

Enclosure

To: (insert name of principal auditor)

We are independent under the requirements of the AICPA Rules of Professional Conduct (and the Securities and Exchange Commission) with respect to (insert name of principal auditor's client) and (insert name of subsidiary, division, branch, component, or investment).

Signature ______________________________ Date __________

The next page is 3401.

AAM Section 3400

New Client Reports

.01 When an accounting firm obtains a new client, a responsibility is incurred to perform certain work within specific deadlines. To meet this obligation, it is important that the firm have standard procedures for recording facts about the engagement. The information that follows is extracted from the MAP Handbook. Firms may wish to insert here copies of their own procedures and forms.

.02 The first step is to prepare a New Client Report or Client Data Sheet (samples A, B, and C, paragraphs .05, .06, and .07, respectively). A new client report is prepared when (a) a new client is engaged (including a newly acquired or newly formed entity of an existing client); (b) an existing client is transferred from another office of the firm; and (c) a "one-time" client engages the firm to perform recurring services.

.03 The person responsible for the initial contact with the client usually prepares this form, and the partner having authority to accept new clients approves it. It is good either to circulate the report throughout the office or to inform those not familiar with the engagement of the name of the new client, the type of business, and the nature of the services to be rendered.

.04 A new client report should be prepared immediately upon receiving the signed acknowledgement copy of the proposal or engagement letter from the client. After the partner has approved the new client, the new client report can be used as the basis for preparing the client's master card, assignment of the client's number, changes in mailing and phone lists, staff assignment sheets, engagement ledgers, and other records. While some firms include a great amount of such detail in the new client report, many firms find it more practical to enter it on a Client Master Record (samples A, B, and C, paragraphs .05, .06, and .07, respectively) or on Operations Cards.

.05 New Client Report – Sample A

Office ____________
Date ____________
Client's name ____________ Fiscal year ____________
Address ____________
Phone ________ Major contact at client ____________ Title ____________
Nature of business ____________ S.I.C. code number* ____________
Latest year ________ Sales ____________ Profits ____________
Form of Organization: ☐ Individual ☐ Partnership ☐ Corporation ☐ Other–indicate ____________
Publicly held: ☐ no ☐ yes–indicate: ☐ O.T.C.; ☐ N.Y.S.E.; ☐ A .S. E.; ☐ Other ____________
a. Source of client: ☐ Personal acquaintance of partner or staff member; ☐ Client; ☐ Attorney; ☐ Bank; ☐ Another office, new client; ☐ Another office, existing client; ☐ Other ____________
b. Name of source ____________
c. Name of partner or staff member responsible for source contact ____________
d. Acknowledgment to source by ____________
Partner in charge ____________ Client code number ____________
Nature of assignment and assignment code number:
☐ Audit ____________ ☐ Tax returns ________ ☐ MAS ____________
☐ Compilation of Financial Statements ________ ☐ Special tax ________ ☐ Monthly service ____________
☐ Review of Financial Statement ________
Estimated fees: a) Annual ____________ b) Nonrecurring or special ____________
Previous auditors ____________
Reason for change (if known) ____________
Attorney and law firm ____________
Federal identification no. ____________ State unemployment insurance no. ________ Sales tax registration no. ________
Comments re assignment, fees, audit, etc. ____________
Related clients, parent, or affiliates ____________

____

Approved ____________ By ____________
Managing Partner Account Administrator

INSTRUCTIONS

1. This report should be prepared on all new clients.
2. This report should also be prepared when an existing client is transferred from one office of the firm to another.
3. Multiple copies of this report should be prepared and distributed as indicated at the top of each copy.
4. Estimated fees must be recorded.
5. The report must be approved by the managing partner.

*Standard industrial classification code number

.06 **New Client Report – Sample B**

Date ____________________

1. Client ____________________ Account number ____________________
2. Address ____________________
3. Telephone number: Office ____________________ Home ____________________
4. Form of organization ____________________
5. Nature of business ____________________ S.I.C. code number* ____________________
6. Names of key personnel and titles:

____

____

____

____

7. Name of person authorizing engagement ____________________
8. Name of comptroller/bookkeeper ____________________
9. Client's attorney ____________________

   Address ____________________
10. Person referring our firm ____________________

    Was "Thank You" referral letter sent? Yes ☐ No ☐

    If no, why? ____________________
11. Was engagement letter prepared: Yes ☐ No ☐

    If no, state why ____________________

    If yes, short description of work to be performed ____________________

    ____
12. Was method of billing and fee discussed? Yes ☐ No ☐

    Estimated fee arrangements ____________________
13. Member(s) of firm discussing arrangements:

____________________ Partner

____________________ Staff member (if appropriate)

*Standard industrial classification code number

.07 New Client Report – Sample C – Designed as a Client Data Sheet

Prepared by ______________________ Date ____________

Client Information

Type of entity ____________
Year end ____________

Name ____________
Attention ____________
Address ____________
City, state ____________
Telephone ____________
ID no: Federal ____________
State ____________
City ____________
Affiliated companies listed on reverse side ☐ Yes
Officers or principals:

Name	Title

Description of business ____________

Attorney ____________
Bank ____________
Banker ____________
Insurance agent ____________

Work Required

	Time Period			
	M	Q	SA	A
Compilation	☐	☐	☐	☐
Review	☐	☐	☐	☐
Other Unaudited Services	☐	☐	☐	☐
Audit	☐	☐	☐	☐
Management Advisory Services	☐	☐	☐	☐
Other	☐	☐	☐	☐

	Fed.	State	City	Other
Income taxes	☐	☐	☐	☐
Pension and profit-sharing	☐	☐	☐	☐
Payroll taxes	☐	☐	☐	☐
W-2s and 1099s	☐	☐	☐	☐
Franchise and annual report	☐	☐	☐	☐
Estate and trust	☐	☐	☐	☐
Other	☐	☐	☐	☐

Follow-up Procedures

Client number ____________
Person originating account ____________
Partner-in-charge ____________

Referred by ____________
Previous accountant ____________

Special fee arrangements (if any): ____________

Approximate annual fee ____________
Send thank you note ____________
Letter of understanding ____________
Engagement letter ____________
Standard industrial classification code no. ____________

Clerical and File Setup

	Check	Initials	Date
1. Assign client number			
2. Prepare alphabetical and numeric rolodex cards			
3. Enter client on client header sheet			
4. Enter name on firm mailing list			
5. Prepare tax engagement memo: Income			
Franchise			
Estate and trust			
Pension and profit-sharing			
Other			
6. Prepare report engagement memo			
7. Set up files a. Tax wallet			
b. Current year tax file			
c. Prior year tax file			
d. Workpaper wallet			
e. Workpaper file			
f. Permanent file			
g. Correspondence file			
h. Financial statement file			
i. Miscellaneous tax file			
j. Notebook			
k. EDP binder			
l. Payroll EDP binder			
m. Other			

→ *The next page is 3501.* ←

AAM Section 3500

Client Master Records

.01 While the new client report can be designed as a client data document, in most firms it is more frequently used only for new engagements as a document that initiates other records. Therefore, it is ordinarily supplemented by a Client Master Record (samples A, B, and C, paragraphs .05, .06, and .07, respectively) which is a permanent record of all the engagement data.

.02 The client master record can be used to help generate notices to other parts of the record system, such as telephone operators, mail departments, staff schedulers, and billing department, if the information is not picked up from the new client report.

.03 One of the problems most firms have with master records is keeping them up-to-date. Information must be updated; if it becomes obsolete, the control of accounts may break down. It is essential that responsibility be assigned for keeping the records for each client current. One way of accomplishing this is to furnish a photocopy of the record to the in-charge accountant for review during preliminary or year-end work. Follow-up is maintained to assure that the corrected photocopies are returned for posting in the master file. Some firms handled the problem by storing the master record information on computer tape so that mailing labels and other information lists can be produced automatically. Periodically, a printout is prepared to permit review and to correct obsolete information.

.04 All client master records should be filed in one place for easy reference.

.05 Client Master Record -- Sample A

Client number ________

Client's name ________
Address ________ Tel. ________
City ________ State ________ Zip ________

Corporation ☐ Partnership ☐
Individual ☐ Fiduciary ☐
Other ________
State of incorporation ________
Date org. or incorp. ________

Principals ________
________ Mail reports to ________
Partner contact ________ Referred by ________
Related clients ________
Attorney ________
Banker ________
Type of business ________

Recurring Operations

☐ Annual Audit

Compile Financial Statements
☐ Monthly
☐ Quarterly
☐ Yearly

Review Financial Statements
☐ Monthly
☐ Quarterly
☐ Yearly

Ending

Monthly work,
no report

Other ________

☐ 1120 ☐ 1065
☐ 1040 ☐ 1040ES

Other ________

State tax returns and due dates
____

Special tax matters ________

Special reports ________

Nonrecurring Operations

Description	Date mailed

Remarks

	1	2	3	4	5	6	7	8	9	10	11	12	Year ends

.06

Client Master Record -- Sample B

Client no.	Client name:	Client address:
Publicly held: Yes ☐ No ☐	Underwriter	Stock exchanges

	Bank name	Banker's name	Client no.	Law firm name	Lawyer's name
Principal client					
Related client					

S.	Client			Check type of mailing below																Mailing types	
No.	Title	Name	Salutation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Code no.	Description
1	Chairperson of the Board																			1	Taxes general
2	President																			2	Taxes trusts
3	Executive Vice President																			3	Taxes corp.
4	Financial Vice President																			4	Taxes partnership
5	Vice President																			5	Taxes individual
6	Vice President																			6	Auditing
7	Treasurer																			7	Accounting
8	Controller																			8	Management advisory service
9	Chief account.																			9	SEC bulletin
10	Auditor																			10	Foreign interests
11																				11	
12																				12	
13																				13	
14																				14	
15																				15	
16																				16	

Remarks:

Client Master Record -- Sample B (Continued)

Client no.	Principal • Client • Related	Type of Business	Fiscal Year	Recurrent Assignments	Form of Organization	Relationship to Principal

Work Assignment		Contact Assignment		Tax Assignments		M.A.S. Assignments		Group Fees		Code No.				
Date	Ptr.-Mgr.	Date	Partner	Date	Man.	Date	M.A.S. Man.	Year	Amount					
										1	Opinion	Corporation	Subsidiary	Annual
										2	Review	Partnership	Affiliate	Semi-annual
										3	Compliation	Individual	Division	Quarterly
										4	Write-up Work	Estate	Partner	Monthly
										5	1040	Trust	Officer	Weekly
										6	1041	Other	Director	
										7	1065		Stockholder	
										8	1120		Employee	
										9	Other Fed Return		Parent	
										10	State Returns			
										11	Special Reports			

.07 Client Master Record – Sample C

Name ______________________________
Address ______________________________ Tel. ______________________________
City ______________________________ State __________ Zip Code ______________
Principals ______________________________ Date of first service ______________
____

Type of business ______________________________ Mail reports to ______________________________
Corpn. state __________ Date __________ Referred by ______________________________
Year ends __________ Related clients ______________________________
Type of work ______________________________ Attorney ______________________________

Yearly fee information summary ______________________________

Date	Hours	Actual rate per hour	Fee only		Expense	Billing total
			Actual	Standard		

The next page is 3601.

AAM Section 3600

Audit Assignment Controls

.01 Effective control of an assignment requires preparing a time budget against which the actual time spent can be measured. The more detailed the budget, the easier it will be to identify segments of the assignment on which a disproportionate amount of time was spent.

.02 Time requirements should be estimated objectively on the basis of a review of the records being audited and a knowledge of the work involved. The resulting estimate should then be compared with the previous year's actual time spent; such a review might furnish clues to problem areas. Time budgets should not be prepared based solely on the prior year's experience without analysis, since a unique situation encountered in the previous year might make it an unrealistic basis for this year's estimate.

.03 Time budget forms differ depending upon firm preference and needs. Some firms use separate forms for the time budget report and the job progress report or analysis (Audit Time Budget—Sample A, paragraph .07) whereas others combine these reports into one form (Sample B, paragraph .08).

.04 Longer, more detailed sets of forms are sometimes used. These forms combine the features of a time budget, a source document for staff scheduling, and a job progress report that compares each assigned person's actual daily hours to the budget. Some firms use a shorter, less-detailed form for jobs of under a predetermined number of staff hours (for example, 100 hours) (Audit Time Analysis—Short Form, paragraph .09) and a longer form for jobs requiring more time (paragraph .10). Some firms use a Weekly (or daily) Progress Report (paragraph .11). This report, submitted weekly by the in-charge accountants, shows the time actually spent in relation to the estimate, the estimated additional time required, and the estimated variance from the original estimate. Some firms also use an Engagement Status Report (paragraph .12).

.05 When the combined time budget and progress report form is used, it must be kept current with the progress of the assignment. This form is carried in the working papers file and is filled in daily by the in-charge accountant for all persons applying time on the assignment. This procedure is vital to identify and control time as it is applied so that it can be compared to the budgeted time for that phase of the engagement.

.06 Irrespective of the type of form used, the prompt identification of actual time variances from the original time estimates is important so immediate corrective action can be initiated. In some cases, this may entail arranging with the client an additional fee for unforeseen work when the engagement was arranged; in other cases, alternative or more efficient procedures may be used for the balance of the assignment.

.07

Audit Time Budget – Sample A

Client ______________________ Examination date ______________________

Prepared by ______________________

Approved:
Supervisor __________ Date ______ Partner __________ Date ______

Preliminary work: Start __________ End __________
Final work: Start __________ End __________

	Budget (in hours)	
	May to Nov.	Dec. to April
Cash	______	______
Receivables:		
Confirmation of balances	______	______
Review ledgers, etc.	______	______
Inventories:		
Observation of physical counts	______	______
Price tests, etc.	______	______
Securities and investments	______	______
Property, plant, and equipment	______	______
Accumulated depreciation and amortization	______	______
Other assets	______	______
Notes and accounts payable	______	______
Tax accruals	______	______
Other liabilities	______	______
Capital stock	______	______
Retained earnings	______	______
Other equity accounts	______	______
Income accounts	______	______
	______	______
Costs and expense accounts	______	______
	______	______
	______	______
Current provision for taxes	______	______
Other income and expense accounts	______	______
Minutes, agreements, etc.	______	______
Conferences with client	______	______
General supervision and planning	______	______
	______	______
Review computer programs and auditability	______	______
Review of internal control	______	______
Review and update permanent files	______	______
Travel	______	______
Report and statement review	______	______
Other matters	______	______
	______	______
	______	______
	______	______
Total budgeted hours	______	______
(Excludes tax and report departments' time)		

10/77 Rev.

.08

Audit Time Budget -- Sample B

	Total hours — Accountant's initials color-coded				General														Cash			Inventories																			Other (describe)		
Date	Total	Supervisor or manager	Senior	Assistant	Audit program	Prior period reports Working papers, etc	Trial balance and adjusting entries	Permanent file	Financial statement comparison	Transactions since balance sheet date	Preparation of reports	Internal control quest. and mgmt letter	Time summary	Supervision	Correspondence and conferences	Review in-house computer programs	Audit of/with computer	General ledger and journal entries	In banks and on hand	Receipts and disbursements	Notes/accts rec and allowance for losses	Observation	Comparison of quantities	Valuation	Clerical accuracy and analytical review	Prepaid expenses	Other current assets	Fixed assets and depreciation	Investments	Other assets	Notes payable and long-term debt	Accounts payable	Other current liabilities	Other long-term liabilities and deferred income	Stockholders' equity	Contingent liabilities	Sales and revenue	Payrolls	Other expense and income tests and analyses	Preparation of tax returns			
Budget																																											
Actual																																											

10/77 Rev.

.09

Audit Time Analysis *(Short Form)*

Client ______________________ Year ended ______________________

	Prior years		Budgeted hours											Actual daily hours																					Next year's budget
				Week beginning																															
			Total																															Total	
Administration																																			
Accounting systems review																																			
Confirmations																																			
Permanent file																																			
Client advisory comments																																			
Report preparation																																			
Tax returns																																			
Initial review																																			
Overall review																																			
Detailed review																																			
Tax accrual review																																			
Trial balance																																			
Cash																																			
Receivables																																			
Inventories																																			
Other assets																																			
Liabilities																																			
Equity																																			
Operating accounts																																			
Totals																																			
Accountants																																			
In-Charge																																			
Totals																																			

.10

Audit Time Analysis (Long Form)

Client ______________________ Year ended ______________________

	Prior Years		Budgeted Hours											Actual Daily Hours																					Next year's budget
			Total	Week beginning																														Total	
Administration																																			
Client conferences																																			
Planning and scheduling																																			
Staff supervision																																			
Accounting systems review																																			
Internal control																																			
EDP installation																																			
General ledger																																			
Cash																																			
Sales																																			
Voucher register																																			
Payroll																																			
Journal entries																																			
Confirmations																																			
Permanent file																																			
Client advisory comments																																			
Report preparation																																			
Financial statements																																			
Footnotes																																			
Tax return preparation																																			
Review																																			
Initial review																																			
Overall review																																			
Detailed review																																			
Tax accrual review																																			
Subtotal to next page																																			

Audit Time Analysis (Long Form) (Continued)

Client ______________ Year ended ______________

	Prior Years		Budgeted Hours	Week beginning								Actual Daily Hours																				Total	Next year's budget
			Total																														
Year-end verification																																	
Trial balance																																	
Cash																																	
Notes receivable																																	
Accounts receivable																																	
Inventories																																	
Prepaid expenses																																	
Intercompany accounts																																	
Securities and investments																																	
Fixed assets																																	
Other assets																																	
Notes payable																																	
Accounts payable																																	
Tax grouping and accrual																																	
Accrued liabilities																																	
Deferred credits																																	
Contingencies and commitments																																	
Equity																																	
Audit of/with computer																																	
Operating accounts																																	
Subtotal from previous page																																	
Totals																																	
Accountants																																	
Manager																																	
In-charge																																	
Totals																																	

10/77 Rev.

.11

Weekly Progress Report

Date ______________

Supervisor ______________ In-charge accountant ______________

Client ______________ Case ______________

	Staff days—seven hours				
	Original Estimate	Used to date	Unused	Est. to complete	Variance
In-charge accountant					
Assistants *(list)*:					
Total assistants					
Grand total					

.12

Month ended ______

Engagement Status Report

Client no.	Client name	Responsible staff member	Year end	Date preplanning completed	Preliminary work date		Year-end work date		Audit review completed	Date submitted to typing	Practice review completed	Date rpt. del.	Date mgt. letter del.
					started	completed	started	completed					

AAM Section 4000

INTERNAL CONTROL

> The material included in these sections on internal accounting control is presented for illustrative purposes only. The comments and illustrations are neither all inclusive nor are they prescribed minimums. They are intended as conveniences for users of this manual who may want assistance when developing materials to meet their individual needs.
>
> This manual is a nonauthoritative kit of practice aids and, accordingly, these sections on internal accounting control do not include extensive explanation or discussion of authoritative pronouncements. Users of this manual are urged to refer directly to applicable authoritative pronouncements when appropriate.

TABLE OF CONTENTS

Section		*Paragraph*
4100	Introduction	.01-.05
4200	General Approach	.01-.17
	Aids Used in Performing the Study and Evaluation	.10-.12
	Special Considerations for Public Companies	.13
	Organization of Checklist Questionnaires and Other Generalized Aids	.14
	Formats of Checklist Questionnaires	.15-.17
4250	Control Considerations in a Minicomputer Environment	.010-.110
	Lack of Segregation of Functions Between the EDP Department and Users	.030
	Location of the Computer	.040
	Lack of Segregation of Functions Within the EDP Department	.050
	Limited Knowledge of EDP	.060
	Utility Programs	.070
	Diskettes	.080

Section		Paragraph
4250	Control Considerations in a Minicomputer Environment—Continued	
	Terminals	.090
	Software Packages	.100
	Documentation	.110
4300	Illustrative Internal Accounting Control Questions—Small Business	.010-.120
	I. General	.020
	II. Revenue Cycle	.030-.040
	A. Revenue and Accounts Receivable	.030
	B. Cash Receipts	.040
	III. Expenditures Cycle	.050-.070
	A. Purchases and Accounts Payable	.050
	B. Payrolls	.060
	C. Cash Disbursements	.070
	IV. Production or Conversion Cycle	.080-.090
	A. Inventories and Cost of Sales	.080
	B. Property, Plant and Equipment	.090
	V. Financing Cycle	.100-.120
	A. Notes Receivable and Investments	.100
	B. Notes Payable, Debt and Other Term Obligations (Such as Leases)	.110
	C. Owner's Equity	.120
4400	Illustrative Specific Internal Accounting Control Objectives and Related Questions—Medium to Large Business	.010-.470
	I. General	
	Organization	.050
	General Accounting	.060
	Preparation of Financial Statements	.070
	II. Revenue Cycle	
	A. Revenue and Receivables	
	Sales Orders	.080
	Credit	.090
	Shipments	.100
	Billings and Records	.110
	B. Cash Receipts	
	Processing Collections	.120
	Recording Collections	.130

Section		Paragraph
4400	Illustrative Specific Internal Accounting Control Objectives and Related Questions—Medium to Large Business—Continued	
	III. Expenditures Cycle	
	A. Purchases and Accounts Payable	
	Purchases	.140
	Receiving	.150
	Invoice Processing	.160
	B. Payroll	
	Authorization of Wages, Salaries, Withholdings and Deductions	.170
	Preparation and Recording	.180
	Disbursements	.190
	Segregation of Functions and Physical Safeguards	.200
	C. Cash Disbursements	
	Assignment of Functions	.210
	Processing Disbursements	.220
	Bank Reconciliations	.230
	IV. Production (Conversion) Cycle	
	A. Production Costs and Inventory	
	Authorization of Production Activities, Planned Inventory Levels and Service Capabilities	.240
	Recording Resources Used in Production and Completed Results	.250
	Recording Transfers to Customers and Other Inventory Dispositions	.260
	Accumulation and Classification of Production and Inventory Costs and Costs of Sales	.270
	Inventory Safeguarding	.280
	Physical Counts of Inventory	.290
	B. Property and Equipment	
	Initiation and Execution of Property and Equipment Transactions	.300
	Recording Property and Equipment and Related Depreciation and Amortization	.310
	Safeguarding Property and Equipment	.320
	V. Financing (Treasury) Cycle	
	A. Investments	
	Authorization of Investment Transactions	.330

Section Paragraph

4400 Illustrative Specific Internal Accounting Control Objectives and Related Questions—Medium to Large Business—Continued

Recording and Classifying Investment Transactions 340
Physical Safeguards and Custodial Accountability 350

B. Borrowing (Debt and Leases)
Authorization of Debt and Other Borrowing Arrangements 360
Recording and Classifying Debt and Other Borrowings 370
Safeguarding Records, Documents and Unissued Debt Instrument . . .380

C. Equity Capital
Authorization of Equity Capital Transactions 390
Recording and Classifying Equity Capital Transactions 400
Physical Safeguards and Custodial Procedures 410
Dividend Disbursements 420

D. Cash
Processing Collections 430
Recording Collections 440
Assignment of Disbursement Functions 450
Processing Disbursements 460
Bank Reconciliations 470

4500 Flowcharts 01-.14
Types of Flowcharts 04
Degree of Detail 05
Flowcharting Illustration—Small Business 06-.14

→ *The next page is 4101.* ←

AAM Section 4100

Introduction

.01 The second standard of field work states, "There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted." SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2, (AU section 320.52-.54), indicates that the auditor should have an understanding of the control environment and the flow of transactions through the accounting system. After the auditor obtains this understanding, he may decide not to rely on the system of internal accounting control to restrict substantive tests. In that situation, he may discontinue his study and evaluation and he need not document his understanding of the system.

.02 SAS No. 1 includes discussion of the subdivision of internal control into internal accounting control and internal administrative control (SAS No. 1, sections 320.12 and 320.27-29; AU § 320.12 [1] and AU § 320.27-.29 [1]) and states that, "accounting control is within the scope of the study and evaluation of internal control contemplated by generally accepted auditing standards while administrative control is not" (SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.49). Accordingly, the term "internal accounting control" is used throughout these sections.

.03 The following Statements on Auditing Standards present authoritative interpretation of the second standard of field work:

- SAS No. 1, section 320 as amended by SAS No. 43, paragraph 2 (AU section 320), "The Auditor's Study and Evaluation of Internal Control."
- SAS No. 3 (AU section 321), "The Effects of EDP on the Auditor's Study and Evaluation of Internal Control."
- SAS No. 20 (AU section 323), "Required Communication of Material Weaknesses in Internal Accounting Control," as amended by SAS No. 30, par. 62 (AU section 642.62).
- SAS No. 39 (AU section 350), "Audit Sampling."
- SAS No. 43 (AU section 1010.02), "Omnibus Statement on Auditing Standards."

.04 Guidance on internal accounting control is also presented in the various AICPA industry audit guides and in the audit guide,

[1] Section reference in *AICPA Professional Standards.*

"Audits of Service Center Produced Records," and the audit and accounting guide, "The Auditor's Study and Evaluation of Internal Control in EDP Systems." Another source of information is "The Report of the Special Advisory Committee on Internal Accounting Control" (AICPA, 1979).

.05 These sections include comments on working tools used in performing the study and evaluation of internal accounting control and illustrative examples of the following:

- Internal accounting control questions—small business.
- Specific internal accounting control objectives and related questions—medium to large business.
- Internal accounting control flow charts—small business.

The next page is 4201.

AAM Section 4200

General Approach

.01 The auditor usually starts obtaining or updating current knowledge and understanding of the client's prescribed internal accounting control procedures at the beginning of field work. This timing is important because the auditor uses this current understanding in determining the nature, extent and timing of compliance and substantive tests to be applied in performing the audit. During preliminary meetings with the client, before commencing field work, the auditor may make inquiries about the client's system or about significant changes in the system since the last audit. In this sense, the auditor starts the review even before starting field work.

.02 The purpose of the review is twofold: first to determine whether there are internal accounting control procedures that may provide a basis for reliance thereon in determining the nature, timing and extent of substantive tests; and second to help design substantive tests in the absence of controls on which the auditor can rely.

.03 The preliminary phase of the auditor's review should be designed to provide him with an understanding of the control environment and the flow of transactions through the system. The purpose of this phase is to provide the auditor with a general knowledge of matters such as the organizational structure, the methods used to communicate responsibility and authority, the methods used to supervise the system, the various classes of transactions and the methods by which each significant class is authorized, executed, initially recorded and processed. Ordinarily the auditor obtains his understanding by a combination of previous experience with the entity, inquiry, observation, and reference to prior-year working papers, client-prepared descriptions of the system, or other appropriate documentation (see SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.51-.52).

.04 On completion of the preliminary phase of the review, an auditor may conclude that further study and evaluation are unlikely to justify any restriction of substantive tests. An auditor also may conclude that the audit effort required to study and evaluate the design of the system and to test compliance with the prescribed control procedures to justify reliance on them to restrict the extent of substantive test exceeds the reduction in audit effort that could be achieved by such reliance. Such a conclusion may result from consideration of the nature or amount of the transactions or balances involved, the data processing methods being used, and the auditing procedures that can be applied in performing the substantive tests. Either conclusion would cause an auditor to discontinue further study and evaluation of the internal accounting control system and to design substantive tests that do not contemplate reliance on such internal accounting control procedures (see SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.53).

.05 If, at this point, the auditor decides he is not going to rely on the system to restrict substantive tests, his documentation may be limited to a record of his reasons for deciding not to extend his review beyond the preliminary phase. If that is the case, there is no reason for completing an internal control questionnaire or for providing any other documentation of his understanding of the system.

.06 If the auditor decides he is going to rely on the system, he should complete his review to determine whether the control procedures are designed to provide reasonable assurance that errors and irregularities will be detected. The information required for the review of the system is ordinarily obtained through one or more of the following procedures: inquiries of appropriate client personnel, inspection of written documentation, and observation of the processing of transactions and the handling of related assets (see SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.55).

.07 To clarify his understanding of information obtained from such sources, the auditor may trace one or a few of the different types of transactions involved through the related documents and records and observe the related internal accounting control procedures in operation. This practice may, if properly designed, be considered as a part of the tests of compliance (see SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.56).

.08 On completion of the review of the design of the system, the auditor should make a preliminary evaluation of whether specific control procedures are suitably designed for him to rely on them for his purpose, assuming satisfactory compliance with those prescribed control procedures. If control procedures are not suitably designed for the auditor to rely on them for his purpose, he would not test compliance with those controls, and he would design substantive tests that do not contemplate reliance on such internal accounting control procedures (see SAS No. 1, section 320.49-.55 as amended by SAS No. 43, paragraph 2; AU section 320.57).

.09 At the conclusion of compliance testing, the auditor again evaluates internal accounting control (SAS No. 1, section 320.64-.68; AU section 320.68-.72) based on both his understanding of prescribed procedures and the results of his compliance tests. Using this evaluation as a basis, the auditor prepares or revises the program for substantive tests necessary to complete the examination. This may also be an appropriate time to bring to the client's attention such matters as material weaknesses in internal accounting control (SAS No. 20, paragraph 5; AU section 323.05).

Aids Used in Performing the Study and Evaluation

.10 The auditor may record his understanding of the system obtained from the review in the form of answers to a questionnaire, narrative memoranda, flowcharts, decision tables, a combination of these forms or any other form that suits the auditor's needs or preferences. Some auditors have preferences for a particular form such as flowcharts and require the form as a matter of firm policy.

.11 Auditors may find aids such as questionnaires, checklists, instructions or similar generalized materials to be useful tools in making their study and evaluation of internal accounting control. These aids generally present questions or statements about internal accounting control objectives and specific procedures or techniques. These aids also generally include caveats that the auditor must use professional judgment in applying them in actual circumstances (including recognition of when to modify their content and when to prepare or obtain supplementary material).

.12 Some auditors design the aid to serve as a working paper when properly annotated. This type of aid is generally in checklist or questionnaire form. Others design the aid as a reference document with explicit instructions that it is intended for reference purposes and not to be annotated for use as a working paper document. Auditors who incorporate checklists or questionnaires into their working papers believe that they provide efficiency and evidence that certain predetermined matters were considered.

Auditors who use reference type aids rather than aids designed to be annotated and retained in the working papers are concerned that standardized checklists may be prepared by rote. Both approaches require that the auditor use professional judgment in the circumstances. Both approaches also require that the auditor remain alert to any matters that may not be covered in the checklists or reference material.

Special Considerations for Public Companies

.13 Auditors of public companies should be aware of the Foreign Corrupt Practices Act of 1977 which, among other things, requires public companies to ". . . devise and maintain a system of internal accounting controls . . . " In 1979, the SEC had proposed rules which would have required inclusion of a statement of management on internal accounting control in annual reports on Form 10-K and in annual reports to security holders and that such a statement be examined and reported on by an independent public accountant. In 1980, the SEC withdrew this proposal and decided to allow existing voluntary and private-sector initiatives for public reporting on internal accounting control (by both registrants and accountants) to continue to develop. The SEC stated its intention to monitor closely the results of such developments and revisit the issue in the spring of 1982. The AICPA Auditing Standards Board has issued SAS No. 30, "Reporting on Internal Accounting Control," which describes the procedures an independent accountant should apply concerning various types of engagements to report on an entity's system of internal accounting control, and also describes the different forms of accountant's report to be issued in connection with such engagements. The AICPA Auditing Standards Division has issued Auditing Interpretation No. 2 of SAS No. 17 (AU section 9328.03—.06) that provides guidance when a material weakness in internal accounting control of a public company comes to an auditor's attention.

Organization of Checklist Questionnaires and Other Generalized Aids

.14 Checklist questionnaires and other generalized aids on internal accounting control typically present numerous questions, statements, or a combination of both, about specific internal accounting control objectives, procedures, and techniques. These materials are generally organized into groupings to aid the auditor in identifying each significant class of transactions and obtaining an understanding of the flow of transactions. Auditors differ in how they structure their materials on internal accounting control. Some auditors group their internal accounting control material into balance sheet and related income statement classifications to ease cross-reference with sections of their working papers on substantive tests. Other auditors organize their material into broad transaction cycles. For example, purchases and accounts payable, payrolls, accrued expenses, and cash disbursements may be grouped as an expenditures cycle. This approach transcends the differences in how companies are organized and helps to get an overview of all the effects of transactions across various functional lines within a company. Other auditors organize their material by functions within a company. Examples are requisitioning, purchasing, receiving, invoice processing, accounts payable recording, and payment functions which may be grouped as purchases and payables. This approach follows the established organizational lines in a company and aids in determining who is responsible for performance of prescribed internal accounting control procedures. These approaches are conceptual notions and may be applied to large or small organizations. The decision to structure internal accounting control material on the statement classification approach, cycle approach, business function approach, or any other suitable approach rests with the individual auditor or firm. Following are some further illustrations of these grouping approaches:

- Related Balance Sheet and Income Statement Classifications: (1) general; (2) cash receipts, disbursements, and balances; (3) accounts receivable and sales; (4) inventory and cost of sales; (5) property, plant and equipment, and related depreciation; (6) investments; (7) accounts payable and purchases; (8) payroll; (9) debt; and (10) equity capital.

- Transaction Cycles: (1) revenue (customer acceptance, credit, shipping, sales, cash receipts, receivables, allowances for doubtful accounts, sales warranties, etc.); (2) expenditures (purchases, payrolls, cash disbursements, accounts payable, accrued expenses, etc.); (3) production or conversion (inventory, cost of sales, property and related depreciation, etc.); (4) financing (investments, debt, leases, equity capital); and (5) financial reporting.[2]

- Groupings of Business Functions: (1) financial reporting (controllership, general accounting); (2) EDP; (3) financial management (cash receipts and disbursements, cash balances and investments, debt, leases, and equity capital); (4) sales and credit (order entry, credit, shipping, billing, receivables and collections); (5) inventory and production costs (production planning and operations, cost accounting, inventory recordkeeping, and inventory custody); (6) productive assets (planning and authorization for capital assets, accounting for property and related depreciation, maintenance, and asset custody); (7) purchases and payables (purchasing, receiving, invoice processing, and disbursements); and (8) employee compensation and benefits (personnel, employee supervision, payroll preparation and recording, and disbursements).

Formats of Checklist Questionnaires

.15 Checklist questions are usually worded so a "yes" answer indicates that the client uses a particular procedure or technique. "No" answers serve as signals that the client may have an internal control weakness unless the client has other procedures that accomplish the same objectives as would the absent procedure. "No" answers pose an especially important documentation problem because they require consideration of the following:

[1] Deleted.

[2] The financial reporting cycle would include general accounting and preparation of such reports as financial statements, tax returns and reports to regulatory bodies. For nonpublic companies which work closely with their auditors in preparing such reports, review of internal accounting control for the financial reporting cycle may be a moot point.

- Should the absent procedure be dismissed as not applicable because it is not relevant in the client's circumstances?
- Does the client have other procedures that accomplish the objective of the absent procedure so that the answer does not indicate a weakness?
- Does the weakness require modification of the audit program for substantive tests or are the tests adequate despite the weakness?
- Is the weakness a material weakness requiring communication in accordance with SAS No. 20 (AU section 323)?
- How should other weaknesses be communicated to the client?

Because of these considerations, the formats of questionnaires usually call for information in addition to simply checking yes and no answers. Some questionnaires provide an additional column for "not applicable" and a wide column for additional comment on conclusions about other compensating procedures and the needs for program modifications and/or written communication to the client.

.16 Some questionnaire formats provide additional columns for information such as the following:

- Name of client's employee or group of employees who perform the procedure.
- Specific cross-reference to flowcharts and/or narratives included in the auditor's working papers.
- Specific cross-reference to working papers on compliance tests.
- Specific cross-reference to compensating procedures for absent items; compensating procedures may be represented by other checklist items or noted in complementary memoranda or procedures not anticipated in the questionnaire.
- Specific cross-reference to memoranda on internal accounting control weaknesses and their effect on the audit program and development of management letter comments.

.17 Some questionnaires provide for the auditor to initial and date each item. Others provide entry of the date and auditor's signature after each group of questions for a particular transaction cycle or functional grouping. Some questionnaires also include blank formats with preprinted captions on which the auditor may prepare annotations about specific internal accounting control weaknesses, conclusions about findings, and proposed amendments (if any) to the audit program. These preprinted captions for example, may include the following:

- Explanation of a specific weakness or new strength (generally cross-referenced to a specific item in the body of the checklist).
- Cross-reference to a specific compensating internal accounting control procedure, if any.
- Whether amendment of the audit program is needed concerning:
  - (a) Further restriction of audit procedures.
  - (b) Extension of audit procedures.
  - (c) Modification of the extent or timing of audit procedures.

The next page is 4227.

AAM Section 4250

Control Considerations in a Minicomputer Environment

.010 The use of minicomputers to process accounting applications is becoming increasingly common in entities of all sizes. In a minicomputer environment, as elsewhere, the auditor studies the system of internal accounting control, which includes both the EDP and non-EDP features of the minicomputer system. In 1981, AICPA published "Audit and Control Considerations in a Minicomputer or Small Business Computer Environment" as part of its Computer Services Guidelines. That document discusses, among other things, audit and planning considerations, substantive audit techniques, and computer-assisted audit techniques in a minicomputer environment. It may be helpful to auditors who wish to acquire more knowledge about the effect of the use of a minicomputer on the audit plan.

.020 "Audit and Control Considerations in a Minicomputer or Small Business Environment" includes a table that lists the risks and controls associated with characteristics frequently found in a minicomputer environment. That table is reproduced below as an aid to auditors performing a study and evaluation of internal accounting control in a minicomputer environment.

.030 **Lack of Segregation of Functions Between the EDP Department and Users**

(Personnel in the user department initiate and authorize source documents, enter data into the system, operate the computer, and use the output reports.)

Risks

Perpetration and concealment of errors or irregularities.
Unauthorized changes to master files.
Inaccurate and incomplete processing of data.
Processing errors.
Incomplete or erroneous data.
Uncorrected errors.
Lost, added, or altered data.

Controls

Maintenance of transaction logs and batch controls by user department.
Independent review of processing logs, transaction logs, and batch control information.
Management supervision.

Passwords to control access to files and libraries.
Required vacations and rotation of duties.
Reconciliation of record counts or hash totals.
Use of application programs to make changes in master files.
Independent reconciliation of transaction totals recorded in batch control logs with input and output totals.
Comparison of system manufacturer's utility program with authorized application version.

.040 Location of the Computer

(The computer is located in the same area as the user department.)

Risks

Improper use or manipulation of data files.
Unauthorized use or modification of computer programs.
Improper use of computer resources.

Controls

Menus and procedures to control processing access.
Management review of usage reports (history logs).
Periodic comparison of usage reports with processing schedule.
Physical control over data entry devices.

.050 Lack of Segregation of Functions Within the EDP Department

(There is no segregation between programmers and operators.)

Risks

Unauthorized access to information and programs.
Perpetration and concealment of errors or irregularities.
Errors caused by improper use or manipulation of data files or unauthorized or incorrect use of computer program.
Application programs that do not meet management's objectives.

Controls

Use of a compiler to convert the source code into object code.
Comparison of library directories with manual records.
Comparison of program in use with an authorized version.
Use of interpretive language programs.
Passwords to control access to libraries and files.
Software controls to limit system access capabilities according to employee function.
Test libraries.
Management review of usage reports (history logs).
Systems of transaction logs, batch controls, processing logs and run-to-run controls.

.060 Limited Knowledge of EDP

(Supervisor responsible for data processing has limited knowledge of EDP.)

Risks

Failure of systems to meet management objectives or operate according to management specifications.

Lack of adequate application controls.

Inadequate testing and review of systems.

Controls

Operations documentation.

Program documentation.

Systems documentation.

Use of third party to review new and modified programs and systems.

.070 Utility Programs

(Utility programs are used extensively to enter and to change data.)

Risks

Unauthorized access and changes to data.

Undetected errors in file manipulation.

Lack of adequate application controls.

Processing of unauthorized transactions and omitting of authorized transactions.

Perpetration and concealment of errors or irregularities.

Controls

Use of passwords to control access to data files.

Use of application programs to update files.

Independent control over transaction and master file changes, such as item count, control total and hash totals.

Limited access to utilities.

Removal of utilities from system when practical to do so.

.080 Diskettes

(Diskettes are used extensively for file storage.)

Risks

Processing of the wrong file.

Inability to detect errors in file changes.

Inability to highlight operator errors.

Controls

Control over access to diskettes.

Storage of data in format not readable by key entry devices.

Use of manual logs to control diskette library.

.090 Terminals

(Terminals are used for transaction data entry, inquiry, and other interactive functions.)

Risks

Unauthorized input.

Erroneous or fraudulent data.

Errors caused by improper use or manipulation of data files or computer programs.
Erroneous or incomplete data.

Controls

Use of software that will allow only certain terminals to be used for specific functions.
Use of physical controls to limit access to data files.
Use of passwords to control access to data files.
Encryption of data and programs.
On-line computer edit procedures.
Record counts, batch controls, run-to-run controls, verification.
Error handling control procedure and error logs.
Use of menus and procedures.

.100 Software Packages

(Purchased software packages are used extensively rather than internally developed application software.)

Risks

Failure of systems to meet management and user objectives.
Lack of adequate applicator controls.
Inadequate testing of systems.

Controls

Use of third party to review and evaluate proposed software packages.

.110 Documentation

(Available system program, operator, and user documentation may be limited or nonexistent.)

Risks

Undetected errors during processing and system maintenance.

Controls

User-based controls.

The next page is 4301.

AAM Section 4300

Illustrative Internal Accounting Control Questions—Small Business

.010 The following is a list of illustrative internal accounting control questions an auditor might raise concerning a small manufacturing operation owned by one person who also serves as the general manager and has only a few employees involved in the accounting function. These illustrative questions are numbered merely for organization purposes; the numbers are in no way intended to infer completeness or a preferred sequence. This list will require modification for other types of entities. Because this list is merely illustrative, some auditors may find it not extensive enough, while others may find it too detailed. Others may prefer a different organization or sequence for the inquiries. A firm that believes the questionnaire approach is appropriate for its practice should develop its own internal accounting control questionnaires based on its own needs and preferences. In any event, users of checklists and questionnaires should recognize that important matters in a particular set of circumstances may not be covered in a standard checklist.

.020

I. General

1. Is a complete and current chart of accounts used?
2. Is a double entry bookkeeping system in use which includes a general ledger, books of original entry and suitable subsidiary records?
3. Do the records provide for efficient accumulation of entries and avoidance of unnecessary or duplicate work?
4. Are standard journal entries used to the extent practicable?
5. Are journal entries understood and authorized by the owner?
6. Does the owner reasonably understand the form and content of the financial statements and such required reports as tax returns?
7. Does the owner use operating budgets and cash projections? If so,
   a. Do the budgets and projections lend themselves to effective comparison with actual results?
   b. Are material variances reviewed and explained?
8. Are monthly comparative financial reports prepared which are sufficiently informative to highlight abnormalities?

9. Are the books of original entry posted promptly and the general ledger and subsidiary ledgers kept current and balanced periodically (monthly)?
10. Is there adequate control including a reporting schedule and assigned responsibility for preparation of required financial statements and government regulatory reports?
11. Are the personal funds of the owner including his personal income and expenses completely segregated from the business?
12. Is the bookkeeper required to take annual vacations and does someone else perform the bookkeeping duties during that time?
13. Are there adequate safekeeping facilities for custody of the accounting records such as fireproof storage areas and restricted access cabinets?
14. Is there adequate fidelity bond coverage of employees who handle cash, securities, other valuable assets and accounting records?
15. Is the adequacy of insurance coverage periodically reviewed?
16. Is there a suitable records retention plan?
17. Is the owner satisfied that all employees are competent and honest?

II. Revenue Cycle (Revenue, Receivables & Cash Receipts)

.030 A. Revenue and Accounts Receivable

1. Is credit approved by the owner or a designated credit manager?
2. Are credit files maintained on a current basis for significant customers?
3. Are commission rates set or approved by the owner?
4. Are sales orders or work orders approved by the owner or a responsible employee for:
   a. Price?
   b. Terms of sale, including delivery dates?
   c. Credit?
   d. Account balance limits?
5. Are all sales orders (or work orders) recorded on pre-numbered forms and are all numbers accounted for?
6. Are shipping documents:
   a. Prepared for all shipments?
   b. Pre-numbered and all numbers accounted for?

c. Based on approved sales orders and matched with sales invoices?

d. Processed promptly?

7. Are all sales invoices:
   a. Pre-numbered and all numbers accounted for?
   b. Compared to shipping documents?
   c. Checked for price and terms?
   d. Checked for clerical accuracy?
   e. Recorded promptly?
8. Are all credit memos pre-numbered and all:
   a. Numbers accounted for?
   b. Approved?
   c. Recorded promptly?
9. Is there a proper cut-off of sales at month end?
10. Are monthly statements of account for all trade receivable balances:
    a. Reviewed by the owner before mailing?
    b. Mailed by the owner or a responsible employee other than the bookkeeper?
11. Is the accounts receivable subsidiary ledger balanced monthly to the general ledger control account?
12. Is an aging schedule or schedule of past due customers' accounts prepared monthly?
13. Does the owner or credit manager review monthly listings of past due customer accounts and investigate delinquent accounts and unusual items?
14. Are write-offs and other adjustments to customers' accounts authorized by the owner?

.040 B. Cash Receipts

1. Does the owner or a responsible employee other than the bookkeeper or person who maintains accounts receivable detail:
   a. Open the mail and prelist all cash receipts before turning them over to the bookkeeper?
   b. Stamp all checks with the restrictive endorsement "for deposit only" before turning them over to the bookkeeper?
   c. Subsequently compare the daily prelisting of cash receipts with:
      (i) The cash receipts journal?
      (ii) The duplicate deposit slip?

2. Are cash receipts deposited intact on a daily basis?
3. Are cash receipts posted promptly to the accounts receivable subsidiary records?
4. Are discounts taken checked for conformity with an authorized policy?
5. Are cash sales controlled by cash registers or prenumbered cash receipt forms?
6. If cash registers are used does a responsible employee other than the cash register operator (cashier)—
   a. Have custody at all times of the key to the cash register tape compartment?
   b. Take periodic readings of the register and compare such with the cashier's record of cash receipts?

III. Expenditures Cycle

.050 A. Purchases and Accounts Payable

Purchasing

1. Does the owner or a designated person other than the bookkeeper do the purchasing?
2. Are all purchases over a predetermined dollar amount approved by the owner?
3. Are purchases of services, property and equipment, investments and other non-routine items approved by the owner?
4. Are all purchases based on purchase orders which present descriptions, quantities and prices which are approved before issuance?
5. Are all purchase order forms prenumbered and is custody of unissued forms adequate to prevent their misuse?
6. Are issued purchase orders listed in detail showing order numbers, vendors' names, quantities and prices to control their issuance and disposition? (This may be in the form of a register, log, or file of copies of issued purchase order forms.)
7. Are open purchase orders periodically reviewed for delivery period so that past due orders may be brought to the owner's attention?

Receiving

8. Are all materials inspected for condition and independently counted, measured or weighed when received?

9. Are receiving reports used and prepared promptly? (Note: copies of purchase orders with the quantities blanked out may serve this purpose.)

10. Are receiving reports subjected to the following:

    a. Prenumbering and accounting for the sequence of all numbers? (This may be coordinated with accounting for all purchase orders—see items 5 and 6 above.)

    b. Promptly provided (by copies) to those who perform the purchasing and accounting (accounts payable) functions?

    c. Controlled so that the liability may be determined for materials received but not yet invoiced?

Accounts Payable

11. Are vendor's invoices:

    a. Matched with applicable purchase orders?

    b. Matched with applicable receiving reports?

    c. Reviewed for correctness of:

        (i) Quantities received?

        (ii) Prices charged?

        (iii) Clerical accuracy (extensions & footings)?

        (iv) Account distribution?

12. Are all available discounts taken?

13. Is there written evidence that invoices have been properly processed (for example, a block stamp, attachment of a voucher form, annotations) before payment?

14. Are duplicate invoices conspicuously stamped or destroyed as a precaution against duplicate payment?

15. Are approved debit memos used to notify vendors of goods returned to them and other adjustments of their accounts?

16. Are there procedures which provide that direct shipments to customers, if any, are properly billed to them?

17. Does the owner verify that the trial balance of accounts payable agrees with the general ledger control account?

18. Does the owner verify that other key accounts agree with the subsidiary records?

19. Are vendors' statements reconciled with accounts payable detail?

20. Are vendors' statements checked by the owner periodically for overdue items?

21. Are expense accounts:
    a. Submitted promptly?
    b. Adequately supported?
    c. Approved before payment?

.060 B. Payrolls

1. Are all employees hired by the owner?
2. Are individual personnel files maintained?
3. Is access to the personnel files limited to the owner or a designee who is independent of the payroll or cash functions?
4. Are wages, salaries, commission and piece rates approved by the owner?
5. Are proper authorizations obtained for all payroll deductions?
6. Is gross pay determined using authorized rates and:
    a. Adequate time records for employees paid by the hour?
    b. Piece work records for employees whose wages are based on production?
    c. Are piece rate records reconciled with production records, or are counts spot checked?
    d. Salesmen's commission records reconciled with sales records?
7. If employees punch time clocks, are the clocks located so they may be watched by someone with authority?
8. Are time records for hourly employees approved by a foreman or supervisor?
9. Would the owner be aware of the absence of any employee?
10. Is the clerical accuracy of the payroll checked?
11. Are payroll registers reviewed by the owner?
12. Is an imprest bank account used for payroll, and does the owner compare deposits to the account with the payroll register?
13. Does the owner approve, sign and distribute payroll checks?
14. If employees are paid in cash, does the owner compare the cash requisition to the net payroll?
15. Does the owner maintain control over unclaimed payroll checks?

.070 C. Cash Disbursements

1. Are all disbursements except from petty cash made by check?
2. Are checks prenumbered and all numbers accounted for?
3. Are all checks recorded when issued?

4. Are all unused checks safeguarded (i. e., is access limited to the owner)?
5. Is a mechanical check protector used to inscribe amounts as a precaution against alteration?
6. Are all voided checks retained and mutilated?
7. Are all checks signed by the owner?
8. If a signature plate is used, is it under sole control of the owner?
9. Are supporting documents (processed invoices, receiving reports, purchase orders, etc.) presented with the checks and reviewed by the owner before he signs the checks?
10. Are supporting documents for checks properly cancelled to avoid duplicate payment?
11. Are checks payable to cash prohibited?
12. Are signed checks mailed by someone independent of the accounts payable function?
13. Are bank statements and paid checks:
    a. Received directly by the owner?
    b. Reviewed by the owner before they are given to the bookkeeper?
14. Are bank reconciliations prepared:
    a. Monthly for all accounts?
    b. By someone other than the cashier or persons authorized to sign checks or use a signature plate if they are other than the owner?
15. Are bank reconciliations reviewed and adjustments of the cash accounts approved by the owner?
16. Are all disbursements from petty cash funds supported by approved vouchers which are prepared in ink and cancelled to prevent reuse?
17. Is there a predetermined maximum dollar limit on the amounts of individual petty cash disbursements?
18. Are petty cash funds on an imprest basis and:
    a. Kept in a safe place?
    b. Reasonable in amount so that the fund ordinarily requires reimbursement at least monthly?
    c. Controlled by one person?
    d. Periodically counted by someone other than the custodian?

IV. Production or Conversion Cycle

.080 A. Inventories and Cost of Sales

Physical Inventories

1. Are physical counts made of all classes of inventory at least once a year?
2. Are physical inventory procedures supervised by the owner or a responsible employee?
3. Do written inventory procedures exist and, if so, are they determined or approved by the owner?
4. Do the inventory procedures adequately address the following matters:
   a. Location and orderly physical arrangement of inventories?
   b. Identification and description of the inventories by persons familiar with it?
   c. Segregation and proper identification of goods that are not property of the client, such as customers' goods and goods held on consignment?
   d. Method of determining quantities such as weight, count or measure?
   e. Identification of stock counted to determine all items are counted and to preclude duplicate counting?
   f. Cut-off of receipts and deliveries?
   g. Control of physical inventory records, such as prenumbering of all count sheets, count tickets, and accounting for all numbered records issued and used?
   h. Identification of slow moving, obsolete and damaged items?
5. Are inventories under physical control of a designated storekeeper who is responsible for quantities and who is also not the bookkeeper?
6. Are there reasonable safeguards against theft or pilferage such as fences or locked areas?
7. Are the inventories adequately insured?

Perpetual Inventory Records

8. Are perpetual inventory records maintained and, if so,—
   a. Are the perpetual records controlled by general ledger accounts and adjusted to periodic physical inventories at least once a year?
   b. Are the perpetual records kept by someone other than the person(s) who have custody of the physical stock?

c. Are differences between physical counts and perpetual records investigated?

d. Are adjustments to the perpetual records approved by the owner?

Costs

9. Do the accounting records provide for properly classified accumulation of the costs of raw materials, direct labor, and overhead (including indirect labor)?

10. Do the accounting records accumulate quantities or units of finished products sold and units of raw materials used in production in sufficient detail and with proper cut-off to provide for adequate determination of cost of goods sold and cost of inventories?

11. Does the client's production process lend itself to accumulation of costs by job order or units processed, and if so, is an appropriate cost accounting system used?

12. Is the cost accounting system tied in with or reconciled to the general ledger?

13. Are production cost budgets and production reports prepared periodically?

    a. Do the budgets lend themselves to comparison with actual costs?

    b. Are differences between budget and actual costs investigated and explained?

    c. Are production cost budgets and comparisons with actual costs reviewed by the owner?

Receipts, Usage and Shipments

14. Do receiving personnel verify the quantity and quality of materials purchased and prepare formal receiving reports?

15. Are signed requisitions required for release of all materials from the storeroom and, if so, are the requisitions prenumbered and all numbers accounted for?

16. Are all shipments of finished goods based on approved shipping advices?

17. Are shipping and receiving areas separate from inventory storage areas?

.090 B. Property, Plant and Equipment

1. Are all additions authorized by the owner?

2. Does the owner understand and approve the estimated lives and methods of depreciation for depreciable property?

3. Does the owner authorize all retirements?
4. Are there detailed records of property, plant and equipment which—
   a. Identify specific assets including their costs and acquisition dates?
   b. Show related depreciation?
   c. Are balanced periodically (at least annually) with the general ledger control accounts?
5. Are there adequate detailed records for leased property under capital leases?
6. Are periodic physical inventories or inspections made of property, plant and equipment?
7. Are depreciable lives periodically reviewed for adequacy in relation to unanticipated use or obsolescence based on actual experience?

V. Financing Cycle

.100 A. Notes Receivable and Investments

1. Does the owner authorize all notes receivable?
2. Are all investment purchases and sales authorized by the owner?
3. Is a detailed record of notes and investments maintained including related income?
   a. Is the record kept current?
   b. Is the record reconciled to the general ledger control accounts?
4. Are investments registered in the name of the company?
5. Does owner have sole access to notes and investment certificates?
6. Are investments kept in a safe place?
7. Are investments counted or confirmed periodically?

.110 B. Notes Payable, Debt, and Other Term Obligations (such as Leases)

1. Does the owner negotiate all borrowings?
2. Does the owner understand the terms, conditions and finance cost (interest) of all debt and lease obligations of a financing nature?
3. Are detailed, up to date, records maintained of notes payable, long-term debt and other term obligations such as leases?
4. Are the company files adequate regarding copies of outstanding notes, bonds, mortgages and leases?

5. Are paid bonds and notes effectively cancelled and retained in the company?

.120 **C. Owner's Equity**

1. If doing business as a corporation:
   a. Are the owner's records safeguarded and in order regarding the certificate or articles of incorporation, bylaws, unissued stock certificates (if any), and relevant correspondence with legal counsel?
   b. Does the general ledger include appropriate capital accounts?
   c. Are minute books maintained and properly safeguarded?
2. If doing business as a sole proprietorship, does the general ledger include appropriate capital accounts?

The next page is 4401.

AAM Section 4400

Illustrative Specific Internal Accounting Control Objectives and Related Questions—Medium to Large Business

.010 This section lists specific internal accounting control objectives and related questions that an auditor might raise concerning a medium to large business with enough employees to be able to achieve a reasonable segregation of duties. These illustrative objectives and related questions are organized into a general category and four broad transaction cycles which are further divided into various subheadings. This is to provide some additional illustration of the concepts discussed in AAM section 4200.14 on organization of checklist questionnaires and other generalized aids.

.020 As discussed in AAM section 4200.10-.12, auditors develop various generalized materials as aids for studying and evaluating internal accounting control. Many of these aids consist of questions or statements about particular procedures or techniques but do not include specific internal accounting control objectives. Some recently developed materials, however, include statements of specific internal accounting objectives in addition to the traditional questions or statements on procedures and techniques. The common aspect of these various sets of specific objectives is that they are derived from the discussion of internal accounting control in SAS No. 1, section 320.28-.48. The number and degree of detail of the sets of objectives included in these materials vary. For example, they range in number from about 40 to over 100. These variations depend on the needs and preferences of the auditors who developed the materials.

.030 The illustrative material in this section includes 62 specific internal accounting control objectives accompanied by related questions concerned with how the objectives may be accomplished. In a number of instances the questions require a comment rather than a simple yes or no answer; these instances should be self evident. Because some procedures and techniques may accomplish more than one objective, there are instances when a group of questions is associated with two or more objectives. Likewise, there is some repetition among the various groups of questions associated with different specific objectives. Some of the questions are of a general nature and are accompanied by examples of more specific procedures and techniques.

.040 A firm should develop or adopt guidance material which is appropriate for its own needs and preferences. In any event, users of this illustrative material or other such material must use professional judgment and be alert for important matters in a particular set of circumstances which may not be covered in the illustrative material. For example, some companies may have developed additional specific internal accounting control objectives to meet special circumstances. Also, some of the specific internal accounting control objectives included in generalized material may not be applicable to some companies because of the absence of certain types of transactions.

I. General

.050 A. Organization

Objectives

- Definitions of responsibilities and authority assigned to specific individuals permit identification of whether persons are acting within the scope of their authority.
- Reports prepared for management planning and control purposes permit systematic comparison of actual with expected results to deter and detect errors and irregularities.

Questions

1. Does the entity have a current organization chart and related materials such as job descriptions and lists of particular individuals which clearly identify:
   a. The responsibilities and authority assigned to senior management personnel?
   b. Individuals specifically authorized to initiate and execute transactions?
   c. Individuals with specific responsibility for custody of various classifications of assets?
   d. Individuals with specific responsibility for financial control functions?
2. Are financial reports prepared for management at reasonable intervals (for example, monthly) which permit comparison of recorded transactions and account balances with expected

results based on such sources of information as budgets, standard costs, engineering estimates, prior experience, and the personal knowledge of management?

3. If operating budgets and cash projections are used:
   a. Do the budgets and projections lend themselves to effective comparison with actual results?
   b. Are material variances reviewed and explained?
4. If an internal audit function is present:
   a. Are the internal auditors independent of the activities they audit?
   b. Do they perform studies and evaluations of internal accounting control including performance of compliance tests?
   c. Do they perform substantive tests of the details of transactions and account balances?
   d. Do they document the planning and execution of their work by such means as preparation of programs and working papers?
   e. Do they render written reports on their findings and conclusions?
   f. Are their reports submitted to the board of directors or to a committee thereof?
5. Are there regular meetings of the board of directors (or comparable bodies) to set policies and objectives, review the entity's performance and take appropriate action, and are minutes of such meetings prepared and signed on a timely basis?
6. For positions of trust such as those involving direct and indirect access to cash, securities and other assets convertible into cash:
   a. Are appropriate investigations made of applicants' backgrounds before hiring?
   b. Is fidelity bond coverage considered?

.060 B. General Accounting

Objectives

- Accounting policies and procedures, including selection among alternative accounting principles, are determined in accordance with management's authorization.
- Access to the accounting and financial records is limited to minimize opportunities for errors and irregu-

larities and to provide reasonable protection from physical hazards.

- Accounting entries are initiated and approved in accordance with management's authorization.
- All accounting entries are appropriately accumulated, classified and summarized in the accounts.

Questions

1. Does the entity have adequate written statements and explanations of its accounting policies and procedures?

   (Written accounting policies and procedures may include such matters as:

   (i) Chart of accounts accompanied by explanations of the items to be included in the various accounts.

   (ii) Identification and description of the principal accounting records, recurring standard entries, and requirements for supporting documentation. For example, this may include information about the general ledger and journal, and the subsidiary transaction registers, accounts, and detail records for each of the various significant classes of transactions.

   (iii) Expression of the assignment of responsibilities and delegation of authority including identification of the individuals or positions that have authority to approve various types of recurring and non-recurring entries.

   (iv) Explanations of documentation and approval requirements for various types of recurring and non-recurring transactions and journal entries. Documentation requirements, for example, would include the basis and supporting computations required for adjustments and write-offs.

   (v) Instructions for determining an adequate cutoff and closing of accounts for each reporting period.)

2. Is responsibility assigned for initiation and approval of revisions in the accounting policies and procedures?

3. Are the entity's accounting policies and procedures adequately communicated to appropriate personnel (for example, by distribution of written instructions and manuals to persons who need them)?

4. Does the principal accounting officer of the entity have adequate authority over accounting employees and principal accounting records at all locations?

(Accounting employees of an operating division or subsidiary may report to the operating manager in charge of the division or subsidiary. In these situations it is especially important that those responsible for accounting and reporting at the divisional or subsidiary level be fully advised of the accounting and reporting policies they are expected to follow.)

5. Is maintenance of the general ledger performed by persons whose duties do not include:
   a. Direct access to assets such as handling cash receipts, custody of marketable securities, receiving of purchased goods, and shipping of finished product?
   b. Performance of functions which provide indirect access to assets such as signing checks, approving invoices, approving purchase orders, authorizing production, extending credit and approving sales orders?
   c. Maintenance of subsidiary ledgers and records?
6. Is access to the general ledger and related records restricted to those who are assigned general ledger responsibilities?
7. Are there adequate facilities for custody of the general ledger and related records?

   (Examples of such facilities include fire resistant locked cabinets, vaults, physical barriers, separate rooms, limited access to work areas, alarms and other detection devices.)
8. Is appropriate insurance coverage maintained in accordance with management's authorization?

   (Such insurance may include loss of records coverage and fidelity bonding of employees in positions of trust.)
9. Are all journal entries reviewed and approved by designated individuals at appropriate levels in the organization?

   (The levels at which journal entries are reviewed and approved will usually vary depending on whether the entries are recurring or non-recurring, routine or unusual, accumulations of routine expected transactions or adjustments of balances requiring estimates and judgments.)
10. Are all journal entries adequately explained and supported?

    (Explanation and support for an entry should be sufficient to enable the person responsible for its review and approval to reasonably perform this function.)
11. Are the individuals designated to review and approve journal entries independent of initiation of the entries they are authorized to approve?

12. Do all journal entries include indication of approval in accordance with management's general or specific authorization?

13. Are all accounting entries subject to the controls over completeness of processing?

    (Examples of controls over completeness of processing include prenumbering of journal vouchers and accounting for all numbers used, accumulation of control totals of dollar amounts debited and credited, and standard identification numbers for recurring standard accounting entries.)

14. Do all journal entries include adequate identification of the accounts in which they are to be recorded?

15. Are there adequate detailed records to support entries regarding:
    a. Amortization of prepaid expenses, deferred charges and intangible assets?
    b. Revenue recognition of deferred income?
    c. Liability accruals and provisions relating to such matters as product warranties?
    d. Provisions and liabilities for income taxes and other taxes?
    e. Liability accruals and provisions for such long-term agreements as pension plans, and deferred compensation arrangements?

16. Are adequate accounts and records maintained so that adjustments and write-offs made to account balances do not impair accountability for actual amounts?

    (Examples are use of contra (allowance) accounts to accumulate valuation adjustments of asset balances, and use of memorandum accounts to control bad debts which have been written off.)

.070 C. Preparation of Financial Statements

Objectives

- The general ledger and related records permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and reports.

- Individuals at appropriate levels in the organization consider sufficient, reliable information in making the estimates and judgments required for preparation of financial statements including related disclosures and other externally reported financial information.

- Financial statements including related disclosures are prepared and released in accordance with management's authorization.

Questions

1. Are the general ledger accounts arranged in orderly groupings which are conducive to efficient statement preparation?

2. Are financial reports of consolidated divisions, subsidiaries and affiliates prepared in prescribed formats which are conducive to efficient combination and consolidation?

3. Are there adequate instructions and procedures for statement preparation?

   (Instructions and procedures, for example, may include the following:

   (i) Written financial statement closing schedule with assignment of specific preparation and review responsibilities.

   (ii) Standard forms and accompanying instructions that identify for such entities as branches, divisions and subsidiaries the data they are to report (for example, consistent groupings and identification of intercompany amounts).

   (iii) Accumulation of information on intercompany transactions.

   (iv) Accumulation of information for disclosure in notes to financial statements.)

4. Are there adequate detailed records and procedures (for preparation and review) for—

   a. Entries to develop consolidated financial statements such as eliminations and recording of goodwill and/or minority interest?

   b. Reclassification entries?

5. Are policies and procedures adequate for informing appropriate levels of management on a timely basis of—

   a. Significant, unusual, or non-recurring transactions or events and considerations concerning their accounting recognition?

   b. Requirements of existing and new accounting rules, and of the rules and regulations of appropriate regulatory bodies?

6. Are estimates of net realizable value of assets and related adjustments to provide valuation allowances, and/or to write down asset balances, reviewed and approved by designated individuals at appropriate levels in the organization who are independent of the persons originating such estimates and adjustments?

7. Are procedures adequate for the review and comparison of financial statement working papers to source data and a comparison of elimination, and reclassification entries to those made in prior periods?

8. Are financial statements subjected to overall review, including comparisons with the prior period and budgeted amounts, by appropriate levels of management before the statements are approved for issuance?

II. Revenue Cycle

A. Revenue and Receivables

.080 Sales Orders

Objectives

- The types of goods and services to be provided, the manner in which they will be provided, and the customers to which they will be provided are in accordance with management's authorization.
- The prices and other terms of sale of goods and services are established in accordance with management's authorization.

Questions

1. Do policies and procedures for acceptance and approval of sales orders appear clearly defined and adequately communicated for:
   a. Standard goods and services?
   b. Nonstandard goods and services?
   c. Unusual delivery arrangements?
   d. Export sales?
   e. Sales to related parties?
2. Is responsibility clearly assigned for approval of sales orders (customer acceptance, credit clearance, and other terms of sale) before shipment or performance?
3. Are sales orders approved in accordance with management's general or specific authorization before shipment or other performance concerning:
   a. Customer?
   b. Description and quantities?
   c. Price?
   d. Other terms of sale (for example, discounts, warranties, time commitments)?

e. Credit (account balance limits)?

(In some instances, these matters may be recorded in computer stored master files. In these instances, consideration should be given to controls over the integrity and timely updating of the files.)

4. Are all approved sales orders recorded on appropriate forms (shipping orders, work orders, etc.) which include indication of proper approval and are subject to:

   a. Prenumbering?

   b. Accounting for all forms used?

   c. Recording in detail?

   (For example, listing in a register or log, or retention of copies of all sales orders issued in a file.)

   d. Timely communication to persons who perform the shipping or service function?

5. Are there appropriate procedures for approval of "No charge" services and services performed under a warranty?

6. Are unfilled sales commitments periodically reviewed?

7. Is current information on prices, and policies on such matters as discounts, sales taxes, freight, service, warranties and returned goods clearly communicated to sales and billing personnel?

   (For example, such information may be communicated through approved sales catalogs, sales manuals or authorized price lists.)

8. Is there timely communication of salesmen's commission rates to persons performing the sales and accounting functions?

   (For example, approved commission schedules.)

.090 Credit

Objective

- Credit terms and limits are established in accordance with management's authorization.

Questions

1. Do policies on acceptance of credit risk appear clearly defined and adequately communicated?
2. Is the credit of prospective customers investigated before it is extended to them?
3. Is there periodic review of credit limits?

4. Are persons who perform the credit function independent of sales, billing, collection and accounting functions?
5. Do persons who perform the credit function receive timely information about past due accounts?
6. Is there timely communication of credit limits and changes of credit limits to persons responsible for approving sales orders?

.100 Shipments

Objectives

- Goods delivered and services provided are based on orders which have been approved in accordance with management's authorization.
- Deliveries of goods and rendering of services result in preparation of accurate and timely billings.

Questions

1. Are goods shipped or services rendered based on documented sales or work orders which include indication of approval in accordance with management's authorization?
2. Are shipping documents prepared for all shipments?
3. Are shipping documents subjected to:
   a. Prenumbering?
   b. Accounting for all shipping documents issued?
   c. Recording in detail? (For example, listing in a register or log, or retention of copies of all shipping documents issued in a file.)
   d. Timely communication to persons who physically perform the shipping function?
   e. Timely communication to persons who perform the billing function?
   f. Timely communication to persons who perform the inventory control function?

   (In some systems, copies of the sales order may serve as shipping documents.)
4. Do shipping documents provide indication of:
   a. Adequate cross-reference to the applicable properly approved sales order?
   b. Customer identity?
   c. Location to which shipment is made?
   d. Description and quantities of goods shipped?

e. Date of shipment?

f. Means of shipment (carrier, etc.)?

g. Indication of receipt?

5. Are persons who perform the shipping function independent of the sales, billing, cash and accounting functions?
6. Is access to finished goods and merchandise restricted so that withdrawals of inventory are based only on properly approved sales orders?
7. Are quantities of goods shipped verified, for example, by double counting or comparison with independent counts by common carriers?
8. Are shipping and performance documents reviewed and compared with billings on a timely basis to determine that all goods shipped or services rendered are billed and accounted for?

.110 Billings and Records

Objectives

- Sales and such related transactions as commissions and sales taxes are based on deliveries of goods or rendering of services and recorded at the correct amounts and in the appropriate period and are properly classified in the accounts.
- Sales related deductions and adjustments are made in accordance with management's authorization.

Questions

1. Are sales invoices prepared for all shipments of goods or services rendered (including purchases which are shipped directly to customers)?

   (In some situations, it is practical to have posting of sales orders include simultaneous preparation of such related forms as shipping orders, billings, and if applicable, salesmen's commission advices.)
2. Are billing and invoice preparation functions performed by persons who are independent of the selling (soliciting and receiving orders from customers), credit, and cash functions?
3. Are all sales invoices:

   a. Prenumbered?

   b. Accounted for to determine all invoices are recorded?

   c. Matched with properly approved sales orders?

d. Matched with shipping documents?

e. Traced to authorized current source information on prices and terms (for example, price lists, schedules, catalogues, or computer stored master files)?

f. Checked for clerical accuracy by recomputation of extensions and footings?

g. Recorded promptly?

4. Are sales invoices listed in detail?

   (For example, the listing may be a sales journal, file of invoice copies, or computer prepared transaction file.)

5. Are there suitable chart of accounts, standard journal entries, control accounts and subsidiary records for recording, classifying and summarizing revenues, receivables, collections and such related items as commissions, and provision of allowances for doubtful accounts and product warranties?

6. Is there a proper cut off of sales and sales adjustments at month end?

   (For example, adjustments for shipments not invoiced to customers, sales invoices not recorded, and sales returns or credit adjustments not recorded.)

7. Are all credit memos (for example, adjustments, allowances and returns):

   a. Prenumbered and all numbers accounted for?

   b. Matched when applicable with receiving reports for returns?

   c. Approved by a responsible employee other than the person initiating preparation of the credit memo?

   d. Recorded promptly?

8. Are commissions based on rates which are in accordance with management's general or specific authorization?

9. Is the accounts receivable subsidiary ledger reconciled monthly to the general ledger control account?

10. Are monthly statements and specific billings sent for trade receivables:

    a. Reviewed by a responsible employee who is independent of the accounts receivable and cash functions?

    b. Mailed by a responsible employee who is independent of the accounts receivable and cash functions?

11. Is an aging schedule or schedule of past due accounts prepared monthly by someone independent of the billing and cash receipts functions?
12. Does the credit manager review monthly aging schedules or listings of past due customer accounts and investigate delinquent accounts and unusual items on a timely basis?
13. Is there documentation of review and analysis of accounts receivable balances to determine valuation allowances (for doubtful accounts) and any specific balances to be written-off?
14. Are valuation allowances and write-offs approved by a responsible employee?
15. Are written-off accounts receivable subject to memorandum control and follow-up by an employee independent of the cash receipts function?
16. Are written-off accounts receivable turned over to lawyers or collection agencies?

B. Cash Receipts [1]

.120 Processing Collections

Objectives

- Access to cash receipts and cash receipts records, accounts receivable records, and billing and shipping records is controlled to prevent or detect, on a timely basis, the taking of unrecorded cash receipts or the abstraction of recorded cash receipts.
- Detail transaction and account balance records are reconciled, at reasonable intervals, with applicable control accounts and bank statements for timely detection and correction of errors.

Questions

1. Is the mail opened by a person(s) whose duties do not involve any shipping, billing, accounts receivable detail, general ledger, invoice processing, payroll and cash disbursement functions?
2. Does the person(s) who opens the mail:
   a. Place restrictive endorsements on all checks as received so they are for deposit only to the bank accounts of the company?

[1] The illustrative internal accounting control objectives and related questions for the cash receipts sections of the revenue cycle (AAM section 4400.120-.130) are duplicated in AAM section 4400.430-.440 because some accountants may prefer to consider them as part of a financing (treasury) cycle.

b. List or otherwise obtain control (for example, by photocopying) over all remittances and prepare totals at least daily?

c. Forward all remittances to the person who prepares and makes the daily bank deposit?

d. Forward the total of remittances to persons independent of physical handling of remittances and accounts receivable detail functions for subsequent comparison with the authenticated duplicate deposit slip and control over postings to subsidiary records?

(In lock box arrangements, customers would mail their remittances to a post office box controlled by the company's bank which would have responsibility for functions 2a-2d.)

3. Are receipts of currency controlled by cash registers and/or prenumbered cash receipt forms?

a. If cash registers are used, is a copy of the tape given to the customer as a receipt, and:

(1) Is the key to the cash register tape compartment in the custody at all times of a responsible employee other than the cash register operator(s)?

(2) Are readings of the register periodically taken and compared with the cashier's records of receipts by a responsible employee other than the cash register operators?

b. If prenumbered receipts are used for currency collections:

(1) Is a copy given to the payor as a receipt?

(2) Are all prenumbered receipts accounted for by a person(s) other than the person(s) handling cash received and balanced with the daily cash received?

c. If cash collections are for payments on account, is adequate information given for accurate posting to accounts receivable detail?

d. If significant cash sales are made (as in a retail store) are spot checks made to determine that cashiers are following prescribed procedures?

4. Are currency receipts forwarded daily to the person who prepares the daily bank deposit?

5. Is a summary listing of daily currency receipts forwarded to a person(s) independent of physical handling of remittances and accounts receivable detail functions?

6. Do areas involving physical handling of cash appear reasonably safeguarded?

(For example, protective windows, vaults, cashier cages, etc.)

7. Are each day's receipts (by mail, and over the counter) except for post dated items deposited intact daily?
8. Are post dated items segregated on daily detail listings of remittances to aid in control of total items received?
9. Are all employees who handle receipts adequately bonded?
10. Are banks instructed not to cash checks and other instruments (for example, drafts, money orders, etc.) drawn to the order of the company?
11. Does company policy prohibit the cashing of any accommodation checks (for example, personal and payroll checks) out of collections?
12. Are local bank accounts used for branch office collections subject to withdrawal only by the home office?
13. Are banks instructed to deliver charged back deposit items (such as checks returned because of insufficient funds) directly to an employee independent of physical handling of cash receipts and posting of accounts receivable detail?
14. Are bank chargebacks received directly from the bank and investigated by a person independent of:
    a. Physical handling of collections?
    b. Posting accounts receivable subsidiary detail?
15. Are entries to the cash receipts journal compared with:
    a. Duplicate deposit slips authenticated by the bank?
    b. Deposits per the bank statements?
    c. Listings prepared (initial control) when mail is opened?
16. Are the comparisons described in item 15 above made by a person(s) whose duties do not include cash receipts and accounts receivable functions?

.130 Recording Collections

Objective

- All cash receipts are recorded at the correct amounts in the period in which received, and are properly classified and summarized.

Questions

1. Is information captured from remittances (by mail and over the counter) adequate for accurate posting of credits to individual accounts receivable subsidiary records or to classifications concerning such other sources as investment income, rents, sales of property or scrap, and proceeds of financing?

(This information, for example, may be included on the listing prepared when the mail is opened, remittance advices which accompany customers' checks, detachable stubs from billings, photocopies of checks, copies of prenumbered receipts issued for currency collections, etc.)

2. Are details of daily collections balanced with the total credits to be distributed to appropriate general ledger accounts and to the total collections for the day before posting to the subsidiary records?

3. Do postings of the general ledger control accounts and subsidiary records include the date on which the remittance was received?

4. Are postings to the general ledger control accounts made by a person(s) independent of:

   a. Physical handling of collections?

   b. Posting accounts receivable subsidiary detail?

5. Are details of collections posted to subsidiary accounts receivable records by a person(s) independent of:

   a. General ledger functions?

   b. Physical handling of collections?

   c. Receipt and investigation of bank chargebacks?

III. Expenditures Cycle

A. Purchases and Accounts Payable

.140 Purchases

Objectives

- The types of goods, other assets, and services to be obtained, the manner in which they are obtained, the vendors from which they are obtained, the quantities to be obtained and the prices and other terms are initiated and executed in accordance with management's general or specific authorization.

- Adjustments to vendor accounts and account distributions are made in accordance with management's general or specific authorization.

Questions

1. Are all purchases based on requisitions which have been approved in accordance with management's authorization?

(For example, management's authorization may be general in that requisitions for certain types of purchases may be based on automatic reorder points which were previously approved. Management's authorization may be specific in that only specific employees may be authorized to approve requisitions for certain types of purchases.)

2. Are purchases made in accordance with management's prescribed guidelines for vendor acceptability?

   (For example, guidelines for vendor acceptability may be based on such considerations as past performance, reputation, and credit standing; ability to meet delivery, quality, and service specifications; price competitiveness; legal restrictions; and policies on related party transactions. Lists of approved vendors may be developed based on such acceptability guidelines. Competitive bids may be required for items over predetermined dollar amounts from a list of several designated major vendors.)

3. Are written purchase orders used for all commitments and do those orders include the vendor description, quantity, quality, price, terms and delivery requirements for the goods or services ordered?
4. Are all purchase orders, before issuance, approved by specific individuals or classes of individuals designated by management?
5. Are all purchase orders prenumbered?
6. Are all purchase orders routinely accounted for?
7. Are all purchase orders listed in detail?

   (Examples include a register, log, computer tabulation, or file of copies of issued order forms.)

8. Is there a record of open purchase commitments?

   (Examples include periodic routine listings of open items prepared from a register, a file of open order copies, a computer master file of open orders.)

9. Is the purchasing function independent of receiving, shipping, invoice processing and cash functions?
10. Is custody of unissued purchase order forms adequate to prevent their misuse?
11. Are open purchase orders periodically reviewed and investigated?

.150 Receiving

Objectives

- All goods, other assets and services received are accurately accounted for on a timely basis.

- Only authorized goods, other assets and services are accepted and/or paid for.

Questions

1. Are all goods received inspected for condition and independently counted, weighed or measured to provide for comparison with the applicable purchase order?
2. Is there evidence that all services received are evaluated for quality and completeness?
3. Are procedures adequate for timely communication concerning shortages or damaged goods?
4. Are receiving reports prepared promptly for all goods received? (For example, copies of purchase orders with the quantities blanked out may serve this purpose. Receiving reports may also be used to record such matters as receipt of pieces of leased equipment.)
5. Do receiving reports provide for recording of:
   a. Description, quantity and acceptability of goods or services received?
   b. Date on which the goods or services are received?
   c. Signature of the individual approving the receipt?
6. Are receiving reports subjected to the following:
   a. Prenumbering?
   b. Listing in detail?
   (For example, a complete set of file copies in numerical or chronological sequence, a receiving log, etc.)
   c. Accounting for all receiving reports used?
   d. Distribution of copies for timely matching with purchase orders and vendor's invoices and, if applicable, timely maintenance of perpetual inventory records?
7. Are receiving functions performed by designated employees who are independent of the purchasing, shipping, invoice processing and cash functions?
8. Is there a separate inspection function?

.160 Invoice Processing

Objectives

- Only authorized goods, other assets and services received are paid for.

- Amounts payable for goods and services received are accurately recorded at the correct amounts in the appropriate period and are classified in the accounts to:
  - (1) Permit preparation of reports and statements in conformity with generally accepted accounting principles or other criteria.
  - (2) Maintain accountability for costs incurred.
- Access to purchasing, receiving, and accounts payable records is suitably controlled to prevent or detect within a timely period duplicate or improper payments.

Questions

1. Are vendors' invoices processed by designated employees who are independent of the purchasing, receiving, shipping and cash functions?
2. Are all vendors' invoices received directly by the designated employees (accounts payable department) who perform the invoice processing function?
3. Is control established over all invoices received?
   (For example, control may be established over invoices received by prompt matching with a prenumbered internally prepared document such as a purchase order and assignment of that number to the invoice. Another approach may consist of assignment of a voucher number and entry into a register.)
4. Are duplicate invoices conspicuously stamped or destroyed as a precaution against duplicate payment?
5. Are there a suitable chart of accounts and established guidelines for assigning account distributions to processed invoices?
6. Are vendors' invoices, prior to payment, compared in detail to:
   a. Purchase orders?
   b. Receiving reports?
   c. Evidence of direct shipment to customers?
   (For example, copy of vendor's shipping document or acknowledgment of receipt by the customer)
   d. Debit memoranda?
   e. Evaluation reports on services rendered?
7. Are vendors' invoices, prior to payment, reviewed for correctness of:
   a. Clerical accuracy (extensions and footings)?
   b. Freight charges?
   c. Account distribution?

8. Is there documented evidence that invoices have been subjected to prescribed processing routines, assigned specific account distributions and approved before payment?

   (Examples include use of a block stamp which has been initialled or signed, attachment of a completed voucher form, attachment of copies of the purchase order and receiving report, and routine annotations on the invoice.)

9. Are all available discounts taken?

10. Are processed invoices and supporting documents approved by designated employees before payment?

11. Are there procedures for periodic review and investigation of unprocessed invoices, unmatched purchase orders and unmatched receiving reports which provide for appropriate follow-up and apropriate financial statement accruals?

12. Are approved debit memos used to notify vendors of goods returned and other adjustments of their accounts?

13. Are processed invoices listed in detail to facilitate timely determination of accounts payable and related account distribution of filled purchase commitments?
   (For example, entries in a voucher register and periodic preparation of unpaid voucher listings, computer prepared listings of transaction detail and master files for vendor accounts, files of unpaid processed invoices, etc.)

14. Are accumulation of processed invoices and follow-up of unmatched purchase orders and receiving reports adequate to result in a proper cut-off for financial reporting purposes?

15. Is accounts payable detail periodically reconciled with the control accounts at reasonable intervals?

16. Are vendors' statements reviewed for overdue items and reconciled with accounts payable detail?

17. Is there independent follow-up of such matters as overdue items on vendors' statements, payment requests, and complaints?

18. Are employee expense accounts

    a. Prepared in accordance with criteria set by management?

    b. Submitted promptly?

    c. Adequately supported?

    d. Approved before payment?

B. Payroll

.170 Authorization of Wages, Salaries, Withholdings and Deductions Objectives

Objectives

- Employees are hired and retained only at rates, benefits and perquisites determined in accordance with management's (board of directors, if appropriate) general or specific authorization.
- Payroll withholdings and deductions are based on evidence of appropriate authorization.

Questions

1. Are all new hires, rates of pay and changes thereto, changes in position, and separations based on written authorizations in accordance with management's criteria?
   (Management's criteria, for example, may include—
   (i) support for such authorizations by written personnel requisitions which have been initiated and approved at designated levels of management,
   (ii) conformity of pay rates with previously approved wage and salary schedules, and
   (iii) appropriate investigation of the job candidate's background.)
2. Are methods for determining premium pay rates for such matters as overtime, night shift work, and production in excess of certain quotas based on written authorization in accordance with management's criteria?

   (Such written authorization may, for example, consist of a schedule based on a labor agreement and/or management policy statements.)
3. Are all employee benefits and perquisites granted in accordance with management's authorization?

   (Employee benefits may be generally authorized as, for example, under a pension plan applicable to a number of employees or specifically authorized as in a deferred compensation agreement with a particular individual authorized by the board of directors.)
4. Are appropriate written authorizations obtained from employees for all payroll deductions and withholding exemptions?
5. Are personnel files maintained on individual employees which include appropriate written authorizations for rates of pay, payroll deductions and withholding exemptions?

6. Are the following reported promptly to employees who perform the payroll processing function:
   a. Wage and salary rates resulting from new hires, rate changes, changes in position, and separations?
   b. Changes in authorized deductions and withholding exemptions?

.180 Preparation and Recording

Objectives

- Compensation is made only to company employees at authorized rates and for services rendered (hours worked, piecework, commissions on sales, etc.) in accordance with management's authorization.
- Gross pay, withholdings, deductions and net pay are correctly computed based on authorized rates and services rendered and properly authorized withholding exemptions and deductions.
- Payroll costs and related liabilities are correctly accumulated, classified and summarized in the accounts in the appropriate period.
- Comparisons are made of personnel, payroll and work records at reasonable intervals for timely detection and correction of errors.

Questions

1. Do employees who perform the payroll processing function receive timely notification of:
   a. Wage and salary rates resulting from new hires, rate changes, changes in position and separations?
   b. Changes in authorized deductions and withholding exemptions?
2. Is gross pay determined using authorized rates and:
   a. Time or attendance records for employees paid by the hour or by salary?
   b. Piece work records for employees whose wages are based on production?
   c. Adequate detail records of sales for commission salesmen?
3. Are there a suitable chart of accounts and established guidelines for determining account distributions for wages and salaries and controlling liabilities for payroll deductions and taxes withheld?
4. Do records of individual employee time, piecework, and/or commissions on sales—

a. Permit computation of gross pay in accordance with management's criteria?

b. Include adequate information for distribution of payroll costs or reconciliation with payroll costs charged to particular cost centers in accordance with management's criteria?

c. Receive written approval of applicable supervisors or foremen before submission to persons who prepare the payroll? (Management criteria for determination of gross pay may include such additional considerations as formulas for overtime premium, shift differential premiums and incentive bonuses. In some situations, records of employee time or production may involve charges to several job order or departmental cost centers. Management criteria may also include additional approvals of time or production increments which result in pay over and above certain base amounts.)

5. Are total production hours used for determination of gross pay reconciled with production statistics used for cost accounting purposes?

6. Are piece rate records reconciled with production records, or are counts spot checked?

7. Salesmen's commission records reconciled with recorded sales?

8. Are clerical operations in the preparation of payrolls verified by reperformance or reconciliation with independent controls (such as predetermined totals for gross pay and/or net pay) over source data?

9. Is a reconciliation prepared of:

   a. Payroll cost distributions to gross pay?

   b. Net pay, deductions and withholding to gross pay?

10. Are comparisons made at reasonable intervals of pay rates per the payroll with rates per the written authorizations in the personnel files by responsible persons whose duties are independent of the personnel, payroll processing, disbursement, and general ledger functions?

11. Are such data as hours worked, piecework and commission sales used to determine gross pay compared at reasonable intervals with applicable production and sales records by responsible persons whose duties are independent of personnel, timekeeping, payroll processing, disbursement and general ledger functions?

12. Are the results of comparisons made per items 10 and 11 above reviewed by a responsible official and appropriate action taken?

.190 Disbursements (Payroll) [2]

Objective

- Net pay and related withholdings and deductions are remitted to the appropriate employees and entities respectively, when due.

Questions

1. Are payrolls approved in writing by responsible employees before issuance of payroll checks or distribution of cash for net pay?
2. Is net pay distributed by persons who are independent of personnel, payroll preparation, time-keeping and check preparation functions?
3. For payrolls paid by check, are checks drawn on a separate imprest account, and are deposits equal to the amount of net pay?
4. For payrolls paid in cash:
   a. Are adequate security precautions taken?
   b. Does the cash requisition equal the amount of net pay to be distributed as cash?
   c. Is distribution made by persons independent of payroll preparation functions?
   d. Are receipts obtained from employees?
5. Is responsibility for custody and follow-up of unclaimed wages assigned to a responsible person independent of personnel, payroll processing and cash disbursements functions?
6. Are procedures adequate to result in timely and accurate preparation and filing of payroll tax returns and payment of accumulated withholdings and related accrued taxes?

   (Examples of procedures include use of a tax calendar or tickler file, instructions and tables for tax return preparation, use of competent tax information services, and appropriate account classifications and subsidiary records to accumulate required information.)
7. Are procedures adequate to result in timely and accurate remittance of accumulated payroll deductions for fringe benefits? (Examples include timely availability of information on benefit plans and amendments, use of a payment calendar or tickler file, appropriate account classifications and subsidiary records to accumulate required information.)

[2] See AAM section 4400.210-.230 (or 4400.450-.470) for additional objectives and questions on cash disbursements.

.200 Segregation of Functions and Physical Safeguards

Objectives

- Functions are assigned so that no single individual is in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties.
- Access to personnel and payroll records is limited to minimize opportunities for errors and irregularities.

Questions

1. Is there adequate separation of duties among employees who perform the following functions:
   a. Written authorization of new hires, pay rates and changes thereto, benefits, changes in position, and separations?
   b. Maintenance of personnel records?
   c. Timekeeping and accumulation of piecework and/or commission information
   d. Preparation of payrolls
   e. Approval of payrolls
   f. Cash disbursements
   g. General ledger
2. Do the personnel and payroll records appear reasonably safeguarded?

   (Examples include locked file cabinets, work areas with limited access.)

C. Cash Disbursements [3]

.210 Assignment of Functions

Objective

- Functions are assigned so that no single individual is in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties.

Questions

1. Is the cash disbursements function performed by persons who are independent of the following functions:
   a. Purchasing?
   b. Receiving?

[3] The illustrative internal control objectives and questions for the cash disbursements sections of the expenditures cycle (AAM section 4400.210-.230) are duplicated in AAM section 4400.450-.470 because some accountants may prefer to consider them as part of a financing (treasury) cycle.

c. Invoice processing?
d. Payroll preparation and approval?
e. Shipping?
f. Accounts receivable?
g. Cash receipts?
h. General ledger?

2. Is there adequate separation of duties within the cash disbursement function among persons who perform the following:
   a. Control access to unissued checks?
   b. Prepare checks?
   c. Sign checks and inspect support?
   d. Mail checks?
   e. Maintain custody of petty cash?
   f. Maintain the cash disbursement journal?
   g. Reconcile the bank accounts?

.220 Processing Disbursements

Objectives

- Disbursements are made only for expenditures incurred in accordance with management's authorization.
- Adjustments to cash accounts are made only in accordance with management's authorization.
- Disbursements are recorded at correct amounts in the appropriate period and are properly classified in the accounts.
- Access to cash and cash disbursements records is restricted to minimize opportunities for irregular or erroneous disbursements.

Questions

1. Are all bank accounts authorized by the board of directors?
2. Are all check signers authorized by the board of directors?
3. Are banks promptly notified of any changes in authorized check signers?
4. Are banks instructed not to cash checks and other instruments (for example, drafts, money orders, etc.) drawn to the order of the company?
5. Are all bank accounts and cash funds subjected to general ledger control?
6. Are all disbursements and bank transfers based on vouchers and check requests which have been approved by responsible employees designated by management?

7. Are all disbursements except from petty cash made by check?
8. Are properly approved supporting documents (processed invoices, purchase orders, receiving reports, etc.) presented with the checks and reviewed by the check signer(s) before signing the checks?
9. Is a mechanical check protector used to inscribe amounts on checks as a precaution against alteration?
10. Are supporting documents for checks properly cancelled to avoid duplicate payment?
11. Are signed checks independently mailed directly after signing without being returned to persons involved in the invoice processing and check preparation functions?
12. Is access to unissued checks limited to designated responsible employees who are independent of the check signing function, including operation of mechanical check signing machines?
13. Are checks prenumbered and all numbers accounted for?
14. Are all voided checks retained and multilated?
15. Are all checks promptly recorded when issued and listed in detail (cash disbursements journal, check register, etc.)?
16. Are details of individual disbursements balanced with the totals to be posted to appropriate general ledger account distributions and to total disbursements to be posted to the general ledger control accounts for cash?
17. Is there a written policy which prohibits:
    a. Drawing checks payable to cash or bearer?
    b. Signing or countersigning of blank checks?
18. If dual signatures are required:
    a. Are the two signers independent of one another?
    b. Does each signer determine that the disbursement is supported by approved documentation?
19. If a check signing machine is used:
    a. Are checks approved before mechanical signing by designated responsible employees who are subject to the same segregation of duties as if they were authorized check signers?

       (Use of a check signing machine allows an entity to delegate authority for approving checks to a greater number of persons than those registered with the bank as authorized signers. However, approval procedures should be sufficient to assure the official whose name is on the signature plate that all mechanically signed checks would have met his approval if he had reviewed and manually signed them himself.)

b. Are the keys and signature plate, and operation of the signing machine under control at all times of the official whose signature is on the plate?

c. Are the employees who have custody of the keys and plate, and operate the check signing machine independent of voucher and check preparation functions and denied access to blank checks?

d. Are the checks issued to the machine operator(s) counted in advance and reconciled with the totals of the counting device on the check signing machine by someone other than the machine operator?

(Control may be strengthened by having a locked compartment on the machine which receives the signed checks and can be opened only by someone independent of the machine operator.)

20. Are cash funds on an imprest basis and:

a. Kept in a safe place?

b. Reasonable in amount?

c. Controlled by one custodian who is independent of invoice processing, check signing, general accounting and cash receipts functions?

d. Periodically counted by someone other than the custodian?

21. Are all disbursements from cash funds:

a. Supported by vouchers which are prepared in ink?

b. Approved in accordance with management's authorization?

c. Cancelled to prevent reuse?

d., Subject to a predetermined maximum dollar limit for any individual disbursement?

22. Are reimbursements of cash funds:

a. Subject to the same review and approval as processed invoices?
(See AAM section 4400.160 on invoice processing)

b. Remitted by checks drawn payable to the order of the custodian of the cash fund?

.230 Bank Reconciliations

Objective

- Comparison of detail records, control accounts and bank statements are made at reasonable intervals for detection and appropriate disposition of errors or irregularities.

Questions

1. Are the bank accounts reconciled monthly by an employee(s) who is independent of invoice processing, cash disbursements, cash receipts, petty cash and general ledger functions?
2. Are bank statements, related paid checks, debit and credit memos received directly from the bank by the employee(s) performing the reconciliations?
3. Does the bank reconciliation procedure include:
   a. Reconciliation of the balance per bank to balance per the general ledger control account and subsidiary detail records?
   b. Comparison in detail of deposits per the bank statement with deposits per cash receipts detail records?
   c. Comparisons in detail of disbursements per bank with the cash disbursements journal (check register) as to date drawn, payee and amount?
   d. Comparison of payees with endorsements?
   e. Follow up of reconciling items and initiation of entries to record such transactions as checks returned for insufficient funds, and bank charges?
4. Are old outstanding checks investigated and subjected to proper disposition (in compliance with applicable escheat laws if present)?

IV. Production (Conversion) Cycle

A. Production Costs and Inventories

.240 Authorization of Production Activities, Planned Inventory Levels and Service Capabilities

Objective

- All production activity (including planned inventory levels and service capabilities) and accounting therefor, is determined in accordance with management's general or specific authorization.

Questions

1. Are the types and quantities of goods to be manufactured and/or services to be provided determined in accordance with management's authorization?

   (Some examples of how management may record and communicate its authorization include approval of:
   (i) Production goals and schedules based on accompanying sales forecasts.
   (ii) Overall production and inventory control plans.
   (iii) Establishment of a production control function.
   (iv) Definitions and policy statements on services to be provided.)

2. Are the methods and materials to be used determined in accordance with management's authorization?

   (Some examples of how management may evidence its authorization include approval of:
   (i) Product engineering plans and specifications.
   (ii) Acquisitions and use of property and equipment.
   (iii) Procedural instructions for services to be provided.)

3. Are planned inventory levels or service capabilities to be maintained, determined in accordance with management's authorization?

   (Some examples of how management may evidence its authorization include approval of:
   (i) Budgeted inventory levels.
   (ii) Policies on whether to produce for specific customer orders, for stock, or a combination of both.
   (iii) Predetermined reorder points.
   (iv) Policies on identification and disposition of excess or obsolete inventory.
   (v) Planned personnel rosters of individuals with specific knowledge, experience and skills relating to services to be provided.)

4. Is the scheduling of goods to be produced and/or services to be provided determined in accordance with management's authorization?

   (Some examples of how management may evidence its authorization include approval of:
   (i) Production schedules and forecasts.
   (ii) Forecasts of time requirements.

(iii) Policies and procedures for budgeting individual job or project orders.)

5. Are all adjustments to inventory and cost of sales made in accordance with management's authorization?
6. Are all dispositions of obsolete or excess inventory or scrap made in accordance with management's authorization?

.250 Recording Resources Used in Production and Completed Results

Objective

- Resources obtained and used in the production process and completed results are accurately recorded on a timely basis.

Questions

1. Are receiving reports prepared which include adequate information for posting detailed inventory records and allow for summarization into a source for posting inventory control accounts? (See AAM section 4400.150, Expenditures Cycle—Receiving, for further illustrative questions on receiving reports.)
2. Are all releases from storage of raw materials, supplies, and purchased parts inventory based on approved requisition documents which:
   a. Include adequate information to be used as a reliable and consistent source for posting detailed inventory records?

      (For example, descriptions, quantities and inventory cost.)

   b. Allow for summarization into a source for maintaining inventory control accounts?
   c. Provide a means (such as prenumbering or batching) of accounting for all requisitions issued?
3. Is authority to approve inventory requisitions assigned to responsible employees whose duties do not include the following:
   a. Physical custody of raw materials, supplies and purchased parts inventories?
   b. Maintenance of detailed inventory records?
   c. Maintenance of inventory control accounts?
4. Is labor effort (time, cost or both) reported promptly and recorded in sufficient detail to be identified with applicable classifications such as job orders or allocation to units in process, and to provide for:
   a. Accumulation into reliable and consistent sources for maintaining detail production control and cost accounting records?

b. Summarization into a source for posting inventory control accounts?

c. Reconciliation with payroll costs charged to the production process?

d. A means (such as prenumbering or batching) of accounting for all labor reports issued?

(See AAM section 4400.170—.200, Expenditures Cycle—Payrolls, for further illustrative questions on payroll.)

5. Are transfers of completed units from production to custody of finished goods inventory based on approved completion reports which authorize such transfer and:

   a. Include adequate information to be used for reliable and consistent maintenance of detailed finished goods inventory and reconciliation with applicable materials and labor put into the production process?

   b. Allow for summarization into a reliable and consistent source for maintaining general ledger control accounts?

   c. Provide a means (such as prenumbering or batching) of accounting for all completion reports issued?

6. Do completion reports include indication of approval by designated individuals in accordance with management's criteria?

   (Such criteria may concern completion of prescribed production steps and conformity with prescribed quality standards.)

7. Are there adequate procedures for reporting defective units and scrap resulting from the production process?

8. Are perpetual inventory records maintained of both quantities and dollar amounts for:

   a. Raw materials?

   b. Supplies?

   c. Work in process?

   d. Finished goods?

   e. Scrap?

   f. Inventory held by outside parties?

      (For example, bonded warehouses, consignees, subcontractors, suppliers.)

   g. Inventory held for outside parties?
      (For example, goods billed but not yet shipped, goods held on consignment, materials being processed as a subcontractor, etc.)?

9. Are the perpetual records of inventory detail:

a. Controlled by general ledger accounts?

b. Based on documentation of inventory movement and adjustments which has been approved in accordance with management's authorization?

c. Adjusted to periodic physical inventories taken annually or on a cycle basis at least once a year?

d. Reconciled with the inventory control accounts at reasonable intervals?

e. Kept by persons whose duties do not include the following:

(1) Custody of the physical stock

(2) Maintenance of the general ledger control accounts

(3) Authority to requisition withdrawals or other movement of inventory.

10. Is documentation of inventory movement accounted for to determine complete and adequate recording thereof?

11. Are there adequate procedures for identifying and reporting excess, slow-moving and obsolete inventories?

12. Do the duties of the persons engaged in production, inventory planning, and inventory custody exclude the following functions:

a. Maintenance of detail inventory records?

b. Cost accounting?

c. General accounting?

.260 Recording Transfers to Customers and Other Inventory Dispositions

Objective

- Transfer of finished production to customers and other dispositions such as sales of scrap are accurately recorded on a timely basis.

Questions

1. Are releases of finished goods inventory for delivery to customers based on shipping documents which have been approved in accordance with management's authorization?

   (See Revenue Cycle—Shipments for further illustrative questions on shipping documents.)

2. Are releases of excess, obsolete, defective or scrap inventory for disposition based on documented instructions which have been approved in accordance with management's authorization?

3. Is authority to approve instructions for the release of inventory assigned to responsible employees whose duties do not include the following:
   a. Physical custody and handling of inventories including preparation of goods for shipment?
   b. Maintenance of detailed inventory records?
   c. Maintenance of general ledger control accounts?
4. Do shipping documents and release documents for such other dispositions as sales of scrap—
   a. Include adequate information for recording reductions in the detailed inventory records, charges to cost of sales, and cross-reference or connection with source documents used to recognize revenue and the related receivable?

      (If practicable, the same document may serve as the source for recognition of revenue and the related receivable and of cost of sales and the related reduction of inventory.)
   b. Allow for summarization into a source for maintaining the inventory control accounts?
   c. Provide a means (such as prenumbering or batching) of accounting for all shipping documents and other release documents issued?

.270 Accumulation and Classification of Production and Inventory Costs and Costs of Sales

Objective

- Inventory, production costs and costs of sales are accumulated and classified in the accounts to—
  (1) permit preparation of statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements.
  (2) maintain accountability for costs incurred.

Questions

1. Do the chart of accounts and standard journal entries provide adequate general ledger control accounts and subsidiary detail for the following:
   a. Accumulation and classification of costs of materials, direct labor, and overhead (including indirect labor)?
   b. Accumulation of information such as the following in sufficient detail and with proper cutoff to provide for adequate determination of inventory costs and cost of goods sold:

(1) Quantities of raw materials and supplies used in production?

(2) Labor hours and/or machine hours expended?

(3) Quantities or units of product produced?

(4) Quantities or units of product transferred to customers?

(Accounts and records vary extensively among companies because of such variables as industry, company size and nature of the production or service process. Examples of techniques to consider in addressing a company's needs include:

(i) Identification and allocation of costs directly to units or jobs produced and to overhead; application of overhead to units or jobs using a burden rate and a factor such as direct labor hours incurred or units produced.

(ii) Use of a job order or process cost system or combination of both, or an allocation of costs incurred to units produced based on units sold and the units in the physical inventories as of the closing and opening of a period.

(iii) Identification of costs incurred with departments or cost centers responsible for incurring the particular costs.

(iv) Use of departmental or costs center burden rates to apply overhead to production.

(v) Use of a standard cost system with investigation of variances.

(vi) Account classifications which provide for preparation of reports and statements in conformity with generally accepted accounting principles and, if appropriate, such other criteria as direct costing practices selected by management for internal purposes and statutory accounting practices required by regulatory bodies.)

2. If a cost accounting system is used, is it reconciled at reasonable intervals with the general ledger?

3. If perpetual records are maintained, are they reconciled at reasonable intervals with the:

   a. General ledger?

   b. Cost accounting system?

4. Are requisitions for materials, supplies, finished goods and physical transfers of inventory subjected to the following:

   a. Review to determine that requisitions are completed and approved in accordance with management's authorization?

b. Accounting for all requisitions used? (For example, by accounting for all numbers preassigned to particular types of requisition forms).

c. Summarization of requisitions at reasonable intervals for consistent and timely maintenance of control accounts?

d. Accurate and timely recording in the subsidiary detail records?

5. Are reports of direct and indirect labor effort (for example: job tickets, time cards, etc.) subjected to the following:

a. Review to determine that the reports are completed and approved in accordance with criteria authorized by management?

b. Accounting for all reports issued?

(For example, by accounting for all numbers preassigned to particular types of reporting forms.)

c. Reconciliation with account distribution of payroll for consistent and timely maintenance of the control accounts?

d. Accurate and timely recording in the subsidiary detail records?

6. Are the detailed inventory records and control accounts adjusted for reports of excess, slow-moving and obsolete inventories in accordance with management's general or specific authorization?

7. Are burden rates and amounts of overhead applied to production compared at reasonable intervals with actual overhead costs incurred and updated in accordance with management's authorization?

8. For standard cost systems:

a. Are standard rates and volume compared at reasonable intervals with actual costs and activity and revised accordingly for changes in underlying conditions?

(For example, comparison of raw material costs with vendors' invoices, standard labor rates with actual rates, standard materials usage and machine hours with product engineering changes, standard labor hours with time studies, etc.)

b. Are significant variances investigated and the resulting explanation brought to management's attention on a timely basis?

9. Do the duties of persons who maintain the detailed inventory and cost accounting records exclude the following functions:

a. Physical custody and handling of inventories?

b. Maintenance of the general ledger control accounts?

10. Is access to the detailed inventory records and control accounts limited to persons responsible for their maintenance, oversight and internal audit?
11. Are the inventory detail records and control accounts adjusted to physical counts at least annually?

.280 Inventory Safeguarding

Objectives

- Inventory is protected from unauthorized use or removal.
- Access to inventory, property, cost and production records is limited to designated individuals in accordance with management authority so that unauthorized dispositions may be prevented or detected within a timely period.

Questions

1. Do physical safeguards of inventory appear reasonably adequate in relation to the materiality of the inventory and its susceptibility to theft?

   (Examples include:

   - fenced areas
   - restricted-access storerooms or vaults
   - guards
   - detection and scanning devices (for example, alarms, television cameras)
   - inspection of personnel
   - independent storeroom clerks
   - maximum visibility by supervisors and security personnel of work and storage areas.)

2. Does inventory appear reasonably protected from physical deterioration?

   (Examples include:

   - shelters and buildings
   - maintenance of environment at appropriate temperature and humidity
   - containers and storage facilities.)

3. Are persons responsible for custody of inventory independent of inventory recording, cost accounting and general accounting functions?
4. Is insurance coverage of the inventory maintained and reviewed in accordance with management's authorization?

.290 Physical Counts of Inventory

Objective

- Recorded balances of inventory are substantiated and evaluated at reasonable intervals by comparison with and evaluation of actual quantities on hand. (For example, physical counts and review for excess, slow moving and obsolete stock.)

Questions

1. Is inventory subjected to physical count at least annually?
2. If the complete physical count is made at other than the fiscal year end are the controls over physical movement (receipts, internal transfers, and shipments) of inventory, accuracy of recording cut-offs and segregation of duties satisfactory for such timing?
3. If counts are made on a cycle basis rather than as complete counts, are all of the following conditions present for classes of inventory subjected to cycle counts?
   a. Complete and accurate perpetual records which are maintained on a timely basis?
   b. The nature of the inventory items allows for practicable comparison with perpetual records?
   c. Adequate control over physical movement of inventories (receipts, internal transfers, and shipments) and accurate recording of cut-offs to provide timely and accurate source data for maintaining the perpetual records and clear identification of classes or groups of items to be counted?
   d. Sufficient segregation of duties so that errors of omission or commission are prevented or detected promptly?
4. Do detailed written inventory procedures and instructions exist which have been approved in accordance with management's authorization before issuance and use?
5. Do the inventory procedures adequately address the following matters:
   a. Location and orderly physical arrangement of inventories?
   b. Identification and description of the inventories by persons familiar with it?
   c. Segregation and proper identification of goods that are not property of the client, such as customers' goods and goods held on consignment?
   d. Method of determining quantities such as weight, count or measure?

e. Recording of items on count sheets or tickets including complete descriptions, identifying codes (serial numbers, model numbers), as well as quantities counted?

f. Special considerations for work in process such as identifying stage of completion?

g. Identification of stock counted to determine all items are counted and to preclude duplicate counting?

h. Cut-off of receipts, internal transfers, and shipments.

i. Control of physical inventory records, such as prenumbering of all count sheets, count tickets, and accounting for all numbered records issued and used?

j. Identification of slow moving, obsolete and damaged items?

k. Substantiation of inventories held by others?

l. Pricing, extension and summarization of the physical counts?

m. Investigation and disposition of differences between physical counts and detailed inventory records?

6. Are physical count procedures supervised by a responsible official whose duties do not include physical custody of inventories and performance of purchasing, receiving, and shipping functions?

7. Are inventory instructions adequately communicated to and understood by persons who perform the physical counts?

8. Are physical counts performed by persons whose duties do not include the following:

   a. Physical custody of inventories?

   b. Detailed inventory record keeping (maintaining perpetual records)?

   c. Maintenance of inventory control account(s)?

9. Is inventory movement adequately controlled during the count so that items are not missed or double-counted because of:

   a. Receiving activity?

   b. Internal inventory movement?

   c. Shipping activity?

10. Are controls over purchases and receiving activity sufficient to result in recording of liabilities for any items included in inventory which have not been paid for?

11. Are controls over sales and shipping activity sufficient to result in exclusion from the physical inventory of any items which have been sold and billed but not yet shipped?

12. Are inventory counts subject to adequate vertification such as recounts by persons other than those who made the initial counts or spot checks by others, such as internal auditors?
13. Are pricing, extension and summarization of the physical counts performed by persons whose duties do not include the following:
    a. Physical custody of inventories?
    b. Detailed inventory record keeping?
    c. Maintenance of the inventory control accounts?
14. Are pricing, extension and summarization of the physical counts subject to adequate verification such as reperformance by persons other than those who initially performed the tasks on a complete or test basis?
15. Are differences between physical counts and detailed inventory records investigated in accordance with management's authorization before the records are adjusted?
16. Is there documentation of review and analysis of the physical inventory to:
    a. Conform with the lower of cost or market principle,
    b. Identify items which are excessive, slow-moving, defective or obsolete,
    c. Determine the need for adjustments or valuation allowances?
17. Are adjustments of the inventory detail records and control accounts given prior approval in accordance with management's authorization?
18. Are dispositions of obsolete or excess inventories and scrap made in accordance with criteria authorized by management?

B. Property and Equipment

.300 Initiation and Execution of Property and Equipment Transactions

Objective

- Additions and related accumulation of depreciation or amortization, retirements, and dispositions of property and equipment (owned and leased) are made in accordance with management's authorization.

Questions

1. Is advance approval in accordance with management's criteria required for all property and equipment transactions?

   (For significant additions (purchases or leases) approval authority may be kept at such levels as the board of directors.

In some closely held entities, authority for such approval may be reserved by the stockholders or partners. Some entities, however, may have a framework of policies and procedures within which general authority for property and equipment transactions within certain dollar limits may be delegated to management levels below the board of directors. It is desirable that such policies be clearly expressed and documented.)

2. Are requests for additions, transfers, major maintenance and repair, retirement and disposition of property and equipment—

   a. Initiated by designated individuals in accordance with management's authorization?

      (These individuals generally are responsible employees or officials in the department which would use the asset.)

   b. Formally documented, including an adequate description of the proposal, its reasons, and the estimated amount of the transaction?

      (Some entities may use standardized forms to document requests for property and equipment transactions including signatures of employees who initiated and approved the request.)

   c. Reviewed for key considerations in accordance with management's criteria?

      (Key considerations may include such issues as:

      (i) Whether to make or buy the asset.

      (ii) Selection of vendors, prices and terms including consideration of soliciting competitive bids.

      (iii) Selection among financing alternatives such as use of internally generated funds, entering debt or lease agreements, and issuing preferred or common stock.

      (iv) Accounting matters, such as whether the transaction should be capitalized or expensed, classification of leases, determination of estimated useful life, salvage value, and methods of depreciation or amortization.)

   d. Approval at a higher level than the department or official who initiated the request?

3. Are authorizations to execute property and equipment transactions adequately documented?

   (Following are some examples of such documentation:

   (i) Decisions recorded in meetings of the board of directors or finance committee accompanied by relevant detailed proposals and cost-benefit analyses which may be part of the minutes by reference.

(ii) Work order forms approved by designated individuals in accordance with clearly stated management criteria.

(iii) Contracts and agreements signed by individuals in accordance with appropriately documented designation by the board of directors.)

4. Are procedures adequate for determining that components and services for property and equipment are received or performed? (Examples include status or completion reports prepared by architects and engineers and approved in accordance with management's authorization; or transactions processed through the company's normal purchasing procedures. See AAM section 4400.140—.160, expenditures cycle, for additional illustrative inquiries on purchase orders, receiving reports and vendors' invoices.)

5. Are procedures adequate for determining that all dispositions of property and equipment have been executed and proceeds, if any, received in accordance with management's authorization?

.310 Recording Property and Equipment and Related Depreciation and Amortization

Objective

- Transactions involving property and equipment and related depreciation and/or amortization are accurately recorded, accumulated and classified in detail and in control accounts to—

  (1) permit preparation of statements in conformity with generally accepted accounting principles or other criteria applicable to such statements,

  (2) maintain accountability for assets.

Questions

1. Are detailed records maintained for the classes of property and equipment (owned and leased) which present:

   a. Description of specific assets, their location, and if applicable, such specific identification as serial or other control numbers?

   b. Cost, acquisition date, and date placed in service (if different from acquisition date)?

   c. Depreciable or amortizable life and method of depreciation or amortization?

      (1) For financial reporting purposes?

      (2) For tax purposes if different from financial reporting?

d. Estimated salvage value and amount subject to depreciation or amortization?

e. Amount of related accumulated depreciation or amortization?

2. Are general ledger control accounts maintained for the appropriate classes of owned and leased property and equipment and related depreciation and amortization?

3. Are responsibilities for maintaining the detailed property records segregated from those of—

   a. Maintaining the general ledger control accounts?

   b. Custody of property and equipment?

4. Do persons who maintain the detail records and control accounts receive timely and adequate information about—

   a. Additions, transfers, retirement from service and dispositions of property and equipment?

   b. Depreciable (or amortizable) lives and methods of depreciation or amortization as prescribed in accordance with management's authorization?

5. Are the detailed property and equipment records reconciled at reasonable intervals with the control accounts and differences, if any, investigated and resolved in accordance with management's authorization?

6. Are depreciable and amortizable lives reviewed at reasonable intervals for adequacy in relation to use or obsolescence based on actual experience?

.320 Safeguarding Property and Equipment

Objective

- Property and equipment is reasonably safeguarded from loss.

Questions

1. Is property and equipment insured in accordance with management's authorization based on appraisals made at reasonable intervals?

2. Are items of property and equipment (owned and leased) subject to reasonably adequate physical protection techniques? (Examples of such techniques include fire alarms and extinguishers, fences, security guards, burglar alarms, limited access and requisitioning procedures for use of portable equipment, etc.)

3. Is responsibility for physical custody of property and equipment assigned to employees whose duties are independent of:

a. Maintaining detailed property records?

b. General ledger functions?

4. Are items of property and equipment (owned and leased) physically inspected at reasonable intervals and compared with the detailed property records?

   (This may be done in coordination with appraisals made to determine insurable values.)

5. Are documents of title and property rights, such as deeds and leases, in the custody of a responsible employee whose duties do not include maintenance of the detailed property records or physical custody of the assets?

6. Are documents of title and property rights compared with the detailed property records at reasonable intervals by persons whose duties do not include the following:

   a. Custody of such documents?

   b. Maintenance of the detailed property and equipment records?

V. Financing (Treasury) Cycle

A. Investments

.330 Authorization of Investment Transactions

Objective

- The nature and terms of investment transactions (marketable securities, notes receivable, and long-term debt or equity investments) are made in accordance with management's authorization.

Questions

1. Are investment transactions initiated and approved in accordance with management authorization?

   (If investments are infrequent and significant, management may deal with each purchase or sale on a case by case basis with approval exercised by the board of directors or a finance committee. If investment transactions are relatively frequent, management may establish standard policies and procedures for initiation and approval of investment transactions.)

2. Are investment transactions approved before execution by responsible officials other than those who proposed the transactions?

   (For example, a transaction may be proposed by the chief executive officer and executed after authorization and approval by the board of directors. Another example would be purchases of treasury bills by the chief financial officer pursuant to authorization by the board of directors.)

3. Are investment transactions initiated and approved by persons whose duties do not include:
   a. Accounting for investment transactions?
   b. Custody of investment securities?
4. Are initiation and approval of investment transactions adequately documented?
5. Are brokers advices and other evidence of execution of transactions promptly compared with documented authorizations and differences brought to the timely attention of management?

.340 Recording and Classifying Investment Transactions

Objective

- Investment transactions, including accrual and collection of related income, are recorded at the correct amounts in the accounting periods in which they were executed or earned, and properly classified in the accounts.

Questions

1. Are adequate general ledger control accounts maintained for various investment classifications and related income?
2. Are adequate detailed investment records maintained currently including control of related income?
3. Are procedures adequate to determine that investment income (interest, dividends) is properly accrued and promptly collected? (Examples of these procedures include comparison of interest accrued with terms of the securities or loan agreements and interest income received, or comparison of dividend income with published dividend records or reports by the investee.)
4. Are the detailed investment records reconciled with the general ledger control accounts, including related income, by persons whose duties do not include:
   a. Maintenance of the detailed investment records?
   b. Maintenance of the general ledger?
   c. Physical custody of the investment securities?
5. Are investments and related collateral reviewed and appraised or valued at market at reasonable intervals for comparison with cost valuations and—
   a. Reporting of the findings to management?
   b. Determination of need for any valuation allowances?

.350 Physical Safeguards and Custodial Accountability

Objective

- Documents evidencing ownership of investments and related collateral, and other investment records are subjected to reasonably adequate physical safeguards and effective custodial accountability procedures.

Questions

1. Are investment securities and related collateral subject to reasonably adequate physical safeguards?

   (Examples include use of safe deposit boxes and/or vaults which require two individuals to gain access; custodial accounts with banks and trust companies, and accounts with brokers.)

2. Are investment securities, except for bearer securities, registered in the name of the company or nominees designated in accordance with management's authorization?

3. If an independent custodian is used, has the custodian been approved by the board of directors?

4. Is custody of investment securities held by the company assigned to designated bonded employees whose duties do not include:

   a. Maintenance of detailed investment records?

   b. Maintenance of general ledger control accounts?

   c. Cash receipts and disbursement functions?

5. Is authority to withdraw investment securities from custody limited to written authorization and joint signatures of responsible officials whose duties do not include:

   a. Custody of investment securities?

   b. Maintenance of detailed investment records?

6. Are investment securities examined at reasonable intervals and compared with detailed investment records by responsible persons whose duties do not include:

   a. Custody of the investment securities?

   b. Maintenance of the detailed investment records?

   c. Maintenance of the general ledger control accounts?

   d. Cash functions?

B. Borrowing (Debt and Leases)

.360 Authorization of Debt and Other Borrowing Arrangements

Objective

- All debt and other borrowing arrangements (such as leases) are initiated and executed in accordance with management's authorization.

Questions

1. Are debt and other borrowing arrangements initiated and approved in accordance with management authorization?
2. Are authorizations for specific debt and other borrowings recorded?

   (Authorizations may be recorded, for example, as decisions in the minutes of board of directors' meetings, finance committee meetings, or partners' meetings.)
3. Do the authorizations specify:

   a. The officials authorized to negotiate debt and leases?

   b. The maximum commitments such officials can make?

   c. Property which may be pledged to collateralize debt?

   d. Covenants which may be made to obtain the loan or lease?

   (Some entities may require that all loan and other borrowing agreements be reviewed by legal counsel before signing.)
4. Are the signatures of two authorized officials required to execute debt instruments or leases?
5. Do procedures appear adequate for initiating proposed debt and lease transactions?

   (In some entities, debt and lease transactions may be infrequent and of such significance that management participates directly in the proposal and approval process on a case by case basis using specialized assistance where appropriate. In other entities, there may be regular procedures concerning matters such as:

   (i) Study of alternatives such as debt, lease or equity financing.

   (ii) Review of corporate charter, bylaws and covenants of existing debt and lease agreements and obtaining appropriate advice from legal counsel.

   (iii) Review of financial forecasts, tax and financial reporting considerations and obtaining appropriate professional advice.)

6. If an agent (generally a bank or trust company) is used for the interest disbursing and redemption functions, have the agent and arrangements been authorized by the board of directors?

.370 Recording and Classifying Debt and Other Borrowings

Objective

- Transactions and obligations concerning debt and other borrowing arrangements are promptly and accurately recorded and classified in detail records and control accounts to—
  - (a) permit preparation of financial statements including required disclosures in conformity with generally accepted accounting principles or other criteria applicable to such statements, and
  - (b) provide timely and accurate information as a basis for conforming with payment obligations and other covenants in the applicable agreements.

Questions

1. Are detailed, timely records maintained of such debt and other borrowings as notes payable, long-term debt and capitalized leases that include such information as:
   a. Date of inception?
   b. Type of obligation?
   c. Face amount?
   d. Interest rate?
   e. Maturity?
   f. Timing and amount of payments?
   g. Proceeds initially received?
   h. Payments of principal?
   i Outstanding principal balance?
   j. Accrued interest expense?
   k. Payments of interest?
   l. Outstanding balance of accrued interest payable?
   m. Premium or discount at inception?
   n. Amortization of premium or discount?
   o. Balance of unamortized premium or discount?
   p. Summarized information or collateral and/or restrictive covenants connected with the obligation (such as minimum current ratios and/or debt to equity ratios; restrictions on paying dividends, purchasing property and equipment, and/or entering lease agreements?

2. Does the chart of accounts provide adequate control accounts for principal amounts and related interest expenses of debt and other borrowings?

3. Are the detailed records maintained by responsible person(s) whose duties do not include:

   a. Maintenance of the general ledger control accounts?

   b. Physical custody of agreements connected with borrowings and unissued debt instruments?

   c. Cash functions?

4. Do persons who maintain the detail records and control accounts receive timely and adequate information about debt and other borrowing obligations (for example, copies or abstracts of the debt and lease agreements)?

5. Are detailed records reconciled with the control accounts at reasonable intervals by persons whose duties do not include:

   a. Maintenance of the detailed records on debt and other borrowings?

   b. Custody of agreements connected with borrowings and unissued debt instruments?

6. Are adequate reports developed from the detailed records and actual debt and lease agreements which provide timely and accurate information as a basis for:

   a. Payments of principal and interest in conformity with the agreements?

   b. Monitoring compliance with terms and covenants in the agreements?

   (See AAM section 4400.210, Expenditure Cycle—for illustrative objectives and questions on cash disbursements.)

7. Are detailed records compared with debt and lease agreements at reasonable intervals by responsible persons whose duties do not include:

   a. Maintenance of the detailed records?

   b. Custody of the debt and lease agreements?

   c. Maintenance of the general ledger control accounts?

   d. Cash functions?

8. If independent agents are retained for the interest paying and redemption functions, are the agents' reports promptly reconciled with the control accounts and subsidiary records?

.380 Safeguarding Records, Documents and Unissued Debt Instruments

Objective

- Access to records, documents and instruments concerning debt and other borrowing arrangements is permitted only in accordance with management's authorization.

Questions

1. Does a responsible individual maintain adequate files of copies of notes payable, long-term debt, mortgage agreements and leases?
2. Are unissued debt instruments such as notes and bonds adequately safeguarded and in the custody of a responsible employee whose duties do not include—
   a. Maintenance of detailed records on borrowings and other term obligations?
   b. Maintenance of general ledger control accounts?
   c. Cash functions?
3. Are unissued debt instruments subject to preassigned numerical control and are all such instruments accounted for at reasonable intervals?
4. Are paid bonds and notes effectively cancelled to preclude their further use?

C. Equity Capital

.390 Authorization of Equity Capital Transactions

Objective

- Equity capital transactions are—
  (a) appropriately authorized and approved in conformity with the entity's governing document (corporate charter, partnership agreement, etc.)
  (b) initiated and executed in accordance with management's authorization.

Questions

1. Are capital transactions (issuance, reacquisition and redemption of stock, dividends, granting of options, rights, conversion privileges, etc.) authorized and approved in conformity with the entity's governing document?

   (The entity's governing document (corporate charter, partnership agreement, etc.) may clearly specify the groups or designated officials who have authority concerning the initiation and approval of specific types of capital transactions.)

2. Are authorizations and approvals for specific capital transactions appropriately recorded?

   (For example, if the corporate charter provides that capital transactions be initiated by the board of directors subject to approval of the stockholders, such authorizations and approvals would be recorded in the respective minutes of board of directors' meetings and stockholders' meetings.)

3. Are two officials specifically authorized by the board of directors required to sign and countersign stock certificates?

4. Are all stock certificates prepared and approved before issuance in accordance with management's authorization?

   (Prescribed procedures would include, for example, compliance with tax and other statutory requirements before signing and issuing certificates. For transfers and retirements of certificates, prescribed procedures would include cancellation and disposition of the certificates received.)

5. If a registrar, transfer agent and/or dividend paying agent is retained, have they been authorized by the board of directors?

.400 Recording and Classifying Equity Capital Transactions

Objective

- Transactions and obligations concerning equity capital are promptly and accurately recorded and classified in detailed records and control accounts.

Questions

1. Does the general ledger include appropriate control accounts for equity capital?

2. Are appropriate control records maintained for each class of stock on such information as number of shares authorized, issued and outstanding, and number of shares subject to options, warrants, and conversion privileges?

3. Are timely detailed records maintained on the specific stock certificates issued and outstanding for each class of capital stock and the identity of holders of record and number of shares for each certificate?

   (In a closely held corporation with a limited number of shareholders and outstanding certificates, properly completed stubs in capital stock certificate books may serve this purpose. Retired certificates would normally be cancelled and reattached to the related stubs. Other situations may require a data base that permits timely rendering of listings of each certificate by number and/or of each shareholder and number of shares held.)

4. Are detailed stock certificate records reconciled at reasonable intervals with the control records and the general ledger?

   (If the corporation retains independent agents for the registrar and transfer functions, for example, the agents' periodic reports would be promptly reconciled with the general ledger.)

5. Are reconciliations of detailed records with the control records and general ledger performed by persons whose duties do not include:
   a. Custody of unissued stock certificates?
   b. Maintenance of the detailed records?
   c. Cash functions?

.410 Physical Safeguards and Custodial Procedures

Objectives

- Access to records, agreements, and such negotiable documents as stock certificates concerning equity capital is permitted only in accordance with management's authorization.
- Records, agreements and negotiable documents are subjected to reasonably adequate physical safeguards and custodial procedures.

Questions

1. Are unissued stock certificates, reacquired certificates and detailed stockholder records subject to reasonable physical safeguards?

   (Examples include fire-resistant files, vaults, and use of safe deposit boxes.)

2. Are stock certificates subject to controls such as prenumbering which provides that all certificates (unissued, issued, and retired) may be accounted for?
3. Are unissued and retired stock certificates examined and all certificate numbers accounted for at reasonable intervals by a person(s) whose duties do not include:
   a. Physical custody of unissued stock certificates?
   b. Maintenance of stockholder detail records?
   c. Cash functions?
   d. General ledger functions?

4. Are retired stock certificates—
   a. Examined for proper endorsement and effectively cancelled by a person(s) whose duties do not include maintenance of the detailed stockholder records?
   b. Matched and recorded promptly in the detailed records of certificates (reattached to related stubs in the certificate book)?
5. Are treasury stock certificates registered in the name of the company and recorded to be readily distinguished from other outstanding shares?

.420 Dividends Disbursements

Objective

- Dividends are disbursed accurately and in conformity with decisions of the board of directors.

Questions

1. Are dividends declared recorded in the minutes of the board of directors meetings regarding class of stock, amount per share, total amount, record date and payment date?
2. Do procedures result in an accurate cutoff and accurate listing of stockholders as of the record date?
3. Are dividend checks prepared based on appropriate stockholder listings and subjected to the following:
   a. Approval and signature in accordance with management's authorization.
   b. Mailing by a person(s) whose duties do not include maintenance of detailed records of stockholders, custody of unissued and retired stock certificates, and check preparation functions?
4. Are total dividends disbursed reconciled to total outstanding shares as of the record date?

D. Cash [4]

.430 Processing Collections

Objectives

- Access to cash receipts and cash receipts records, accounts receivable records, and billing and shipping records is con-

[4] The illustrative internal accounting control objectives and related questions for these cash sections are the same as those for the cash receipts sections of the revenue cycle (AAM section 4400.120-.130) and cash disbursements sections of the expenditures cycle (AAM section 4400.210-.230). They are duplicated here in AAM section 4400.430-.470 because some accountants may prefer to consider them as part of a financing (treasury) cycle.

trolled to prevent or detect, on a timely basis, the taking of unrecorded cash receipts or the abstraction of recorded cash receipts.

- Detail transaction and account balance records are reconciled, at reasonable intervals, with applicable control accounts and bank statements for timely detection and corrections of errors.

Questions

1. Is the mail opened by a person(s) whose duties do not involve any shipping, billing, accounts receivable detail, general ledger, invoice processing, payroll and cash disbursement functions?
2. Does the person(s) who opens the mail:
   a. Place restrictive endorsements on all checks when received so they are for deposit only to the bank accounts of the company?
   b. List or otherwise obtain control (for example, by photocopying) over all remittances and prepare totals at least daily?
   c. Forward all remittances to the person who prepares and makes the daily bank deposit?
   d. Forward the total of remittances to persons, who are independent of physical handling of remittances and accounts receivable detail functions, for subsequent comparison with the authenticated duplicate deposit slip and with control total over postings to subsidiary records?

      (In lock box arrangements, customers would mail their remittances to a post office box controlled by the company's bank which would have responsibility for functions 2a-2d.)
3. Are receipts of currency controlled by cash registers and/or prenumbered cash receipt forms?
   a. If cash registers are used, is a copy of the tape given to the customer as a receipt, and:
      (1) Is the key to the cash register tape compartment in the custody at all times of a responsible employee other than the cash register operator(s)?
      (2) Are readings of the register periodically taken and compared with the cashier's records of receipts by a responsible employee other than the cash register operator(s)?
   b. If prenumbered receipts are used for currency collections:
      (1) Is a copy given to the payor as a receipt?
      (2) Are all prenumbered receipts accounted for by a person(s) other than the person(s) handling cash received and balanced with the daily cash received?

c. If cash collections are for payments on account, is adequate information given for accurate posting to accounts receivable detail?

d. If significant cash sales are made (as in a retail store) are spot checks made to determine that cashiers are following prescribed procedures?

4. Are currency receipts forwarded daily to the person who prepares the daily bank deposit?

5. Is a summary listing of daily currency receipts forwarded to a person(s) independent of physical handling of remittances and accounts receivable detail functions?

6. Do areas involving physical handling of cash appear reasonably safeguarded?
(For example, protective windows, vaults, cashier cages, etc.)

7. Are each day's receipts (by mail, and over the counter) except for post dated items deposited intact daily?

8. Are post dated items segregated on daily detail listings of remittances to aid in control of total items received?

9. Are all employees who handle receipts adequately bonded?

10. Are banks instructed not to cash checks and other instruments (for example, drafts, money orders, etc.) drawn to the order of the company?

11. Does company policy prohibit the cashing of any accommodation checks (for example, personal and payroll checks) out of collections?

12. Are local bank accounts used for branch office collections subject to withdrawal only by the home office?

13. Are banks instructed to deliver charged back deposit items (such as checks returned because of insufficient funds) directly to an employee independent of physical handling of cash receipts and posting of accounts receivable detail?

14. Are bank chargebacks received directly from the bank and investigated by a person independent of:

a. Physical handling of collections?

b. Posting accounts receivable subsidiary detail?

15. Are entries to the cash receipts journal compared with:

a. Duplicate deposit slips authenticated by the bank?

b. Deposits per the bank statements?

c. Listings prepared (initial control) when mail is opened?

16. Are the comparisons described in item 15 above made by a person(s) whose duties do not include cash receipts and accounts receivable functions?

.440 Recording Collections

Objective

- All cash receipts are recorded at the correct amounts in the period in which received, and are properly classified and summarized.

Questions

1. Is information captured from remittances (by mail and over the counter) adequate for accurate posting of credits to individual accounts receivable subsidiary records or to classifications concerning such other sources as investment income, rents, sales of property or scrap, and proceeds of financing?

   (This information, for example, may be included on the listing prepared when the mail is opened, remittance advices which accompany customers' checks, detachable stubs from billings, photocopies of checks, copies of prenumbered receipts issued for currency collections, etc.)
2. Are details of daily collections balanced with the total credits to be distributed to appropriate general ledger accounts and to the total collections for the day before posting to the subsidiary records?
3. Do postings of the general ledger control accounts and subsidiary records include the date on which the remittance was received?
4. Are postings to the general ledger control accounts made by a person(s) independent of:
   a. Physical handling of collections?
   b. Posting accounts receivable subsidiary detail?
5. Are details of collections posted to subsidiary accounts receivable records by a person(s) independent of:
   a. General ledger functions?
   b. Physical handling of collections?
   c. Receipt and investigation of bank chargebacks?

.450 Assignment of Disbursement Functions

Objective

- Functions are assigned so that no single individual is in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties.

Questions

1. Is the cash disbursements function performed by persons who are independent of the following functions:
   a. Purchasing?
   b. Receiving?
   c. Invoice processing?
   d. Payroll preparation and approval?
   e. Shipping?
   f. Accounts receivable?
   g. Cash receipts?
   h. General ledger?
2. Is there adequate separation of duties within the cash disbursement function among persons who perform the following:
   a. Control access to unissued checks?
   b. Prepare checks?
   c. Sign checks and inspect support?
   d. Mail checks?
   e. Maintain custody of petty cash?
   f. Maintain the cash disbursement journal?
   g. Reconcile the bank accounts?

.460 Processing Disbursements

Objectives

- Disbursements are made only for expenditures incurred in accordance with management's authorization.
- Adjustments to cash accounts are made only in accordance with management's authorization.
- Disbursements are recorded at correct amounts in the appropriate period and are properly classified in the accounts.
- Access to cash and cash disbursements records is restricted to minimize opportunities for irregular or erroneous disbursements.

Questions

1. Are all bank accounts authorized by the board of directors?
2. Are all check signers authorized by the board of directors?
3. Are banks promptly notified of any changes in authorized check signers?

4. Are banks instructed not to cash checks and other instruments (for example, drafts, money orders, etc.) drawn to the order of the company?

5. Are all bank accounts and cash funds subjected to general ledger control?

6. Are all disbursements and bank transfers based on vouchers and check requests which have been approved by responsible employees designated by management?

7. Are all disbursements except from petty cash made by check?

8. Are properly approved supporting documents (processed invoices, purchase orders, receiving reports, etc.) presented with the checks and reviewed by the check signer(s) before signing the checks?

9. Is a mechanical check protector used to inscribe amounts on checks as a precaution against alteration?

10. Are supporting documents for checks properly cancelled to avoid duplicate payment?

11. Are signed checks independently mailed directly after signing without being returned to persons involved in the invoice processing and check preparation functions?

12. Is access to unissued checks limited to designated responsible employees who are independent of the check signing function, including operation of mechanical check signing machines?

13. Are checks prenumbered and all numbers accounted for?

14. Are all voided checks retained and multilated?

15. Are all checks promptly recorded when issued and listed in detail (cash disbursements journal, check register, etc.)?

16. Are details of individual disbursements balanced with the totals to be posted to appropriate general ledger account distributions and to total disbursements to be posted to the general ledger control accounts for cash?

17. Is there a written policy which prohibits:
    a. Drawing checks payable to cash or bearer?
    b. Signing or countersigning of blank checks?

18. If dual signatures are required:
    a. Are the two signers independent of one another?
    b. Does each signer determine that the disbursement is supported by approved documentation?

19. If a check signing machine is used:

    a. Are checks approved before mechanical signing by designated responsible employees who are subject to the same segregation of duties as if they were authorized check signers? (Use of a check signing machine allows an entity to delegate authority for approving checks to a greater number of persons than those registered with the bank as authorized signers. However, approval procedures should be sufficient to assure the official whose name is on the signature plate that all mechanically signed checks would have met his approval if he had reviewed and manually signed them himself.)

    b. Are the keys and signature plate, and operation of the signing machine under control at all times of the official whose signature is on the plate?

    c. Are the employees who have custody of the keys and plate, and operate the check signing machine independent of voucher and check preparation functions and denied access to blank checks?

    d. Are the checks issued to the machine operator(s) counted in advance and reconciled with the totals of the counting device on the check signing machine by someone other than the machine operator?

       (Control may be strengthened by having a locked compartment on the machine which receives the signed checks and can be opened only by someone independent of the machine operator.)

20. Are cash funds on an imprest basis and:

    a. Kept in a safe place?

    b. Reasonable in amount?

    c. Controlled by one custodian who is independent of invoice processing, check signing, general accounting and cash receipts functions?

    d. Periodically counted by someone other than the custodian?

21. Are all disbursements from cash funds:

    a. Supported by vouchers which are prepared in ink?

    b. Approved in accordance with management's authorization?

    c. Cancelled to prevent reuse?

    d. Subject to a predetermined maximum dollar limit for any individual disbursement?

22. Are reimbursements of cash funds:
    a. Subject to the same review and approval as processed invoices?
       (See AAM section 4400.160 on invoice processing)
    b. Remitted by checks drawn payable to the order of the custodian of the cash fund?

.470 Bank Reconciliations

Objective

- Comparison of detail records, control accounts and bank statements are made at reasonable intervals for detection and appropriate disposition of errors or irregularities.

Questions

1. Are the bank accounts reconciled monthly by an employee(s) who is independent of invoice processing, cash disbursements, cash receipts, petty cash and general ledger functions?
2. Are bank statements, related paid checks, debit and credit memos received directly from the bank by the employee(s) performing the reconciliations?
3. Does the bank reconciliation procedure include:
    a. Reconciliation of the balance per bank to balance per the general ledger control account and subsidiary detail records?
    b. Comparison in detail of deposits per the bank statement with deposits per cash receipts detail records?
    c. Comparisons in detail of disbursements per bank with the cash disbursements journal (check register) as to date drawn, payee and amount?
    d. Comparison of payees with endorsements?
    e. Follow up of reconciling items and initiation of entries to record such transactions as checks returned for insufficient funds, and bank charges?
4. Are old outstanding checks investigated and subjected to proper disposition (in compliance with applicable escheat laws if present)?

The next page is 4501.

AAM Section 4500

Flowcharts

.01 A flowchart is a diagram which uses symbols to portray the flow of transactions and the various steps applied in that process.

.02 Use of flowcharts is widespread among persons involved in computerized information processing. Some auditors have also been using flowcharts as their preferred method of recording their understandings of their clients' systems of internal accounting control. Some firms, as an internal policy, urge their staff auditors to use flowcharting. Other firms require use of flowcharting on audits of clients over a given level of size or complexity.

.03 The decision to use flowcharts rests with the individual firm or auditor. Proponents of flowcharting believe the auditor can more easily read and analyze a flowchart than a narrative description of a system, especially when reviewing understandings which are developed by assistants. They also believe the discipline needed to prepare flowcharts encourages staff to obtain a clearer, more accurate understanding of the system being reviewed, particularly the control points in the system. Those with reservations about flowcharting are concerned that the potential benefits of flowcharting are not enough to justify the time and effort needed to prepare them. They also are concerned that staff may get lost in excessive detail or stray into extraneous areas. A decision to use flowcharts, therefore, implies a concurrent decision to develop adequate instructional material.

Types of Flowcharts

.04 Some users of flowcharts classify them into the following three types:

- Systems flowchart—provides a broad overview of a system.
- Program flowchart—concerned with the minute steps of a system, generally a computer program. Some users also describe computer program flowcharts as block diagrams.
- Internal accounting control flowchart—portrays the interaction of departments and/or individuals involved in the plan of organization and the procedures and records concerned with the safeguarding of assets and the reliability of financial records.

Some data processing people who tend to confront complex situations develop sets of charts in several layers with each layer oriented towards a different level of users; this is termed a hierarchical approach.

Degree of Detail

.05 The question of how much detail an auditor should include in a flowchart is a difficult one. And the answer is elusive; it varies with the professional judgment of the auditor who has final responsibility for the engagement. A related difficult matter is how to help assistants avoid the pitfalls of including excess and/or extraneous detail in their flowcharts and the accompanying run-up of time. In deciding on an appropriate policy, the auditor should recognize that his working papers, taken as a whole, should be adequate to record his understanding of the client's internal accounting control and help support his evaluation of the system.

Flowcharting Illustration—Small Business

.06 Use of flowcharts need not be limited to recording an understanding of complex information processing systems. An illustration is included below to show how an auditor might use flowcharts to record an understanding of purchases, receipt of stock, and cash disbursements for purchases for Kilroy Wholesale Grocery. John Kilroy owns and operates the business with two employees. One employee serves as both the stock clerk and truck driver. The other employee is the bookkeeper.

.07 A symbol legend is also included to explain the five different symbols used in the illustrative flowcharts. In practice, an auditor would probably use a standard set of flowchart symbols which would eliminate the need for preparing flowchart symbol legends for each set of working papers. The symbols used in the illustrative flowcharts are from the set of standard flowcharting symbols developed by the American National Standards Institute, Inc. (ANSI) which is sponsored by the Business Equipment Manufacturers Association.[1] Some accounting firms have developed or adopted other sets of symbols to meet their individual needs.

.08 The following illustrative transaction processing flowcharts of Kilroy Wholesale Grocery are presented as Exhibits 1 and 2:

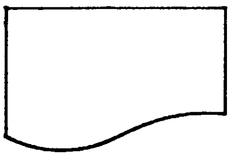
- Purchases and Receipts of Stock (two pages)
- Cash Disbursements for Purchases (two pages)

.09 There are also various approaches to the layout of flowcharts. For example, the illustrations present the functions of more than one person (or department) on each sheet. An alternate approach would be to limit a page or set of pages to the functions of a single department or individual. In addition, the illustrative flowcharts present vertical flow lines that start at the top of the page. An alternate

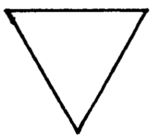
[1] ANSI, American National Standard Flow Chart Symbols and Their Usage in Information Processing. (1430 Broadway, New York, N. Y. 10018) 1971.

approach would be to present horizontal flow lines that start at the left side of the page. These alternate approaches depend on the preferences of the individual firm or the auditor who has final responsibility for the engagement.

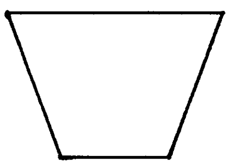
.10 Kilroy Wholesale Grocery
Symbol Legend - Transaction Processing Flowcharts



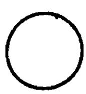
= Document



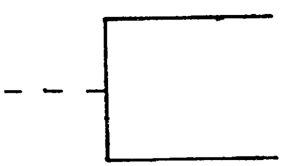
= File



= Manual operations. This symbol represents a process or work step performed by a person.



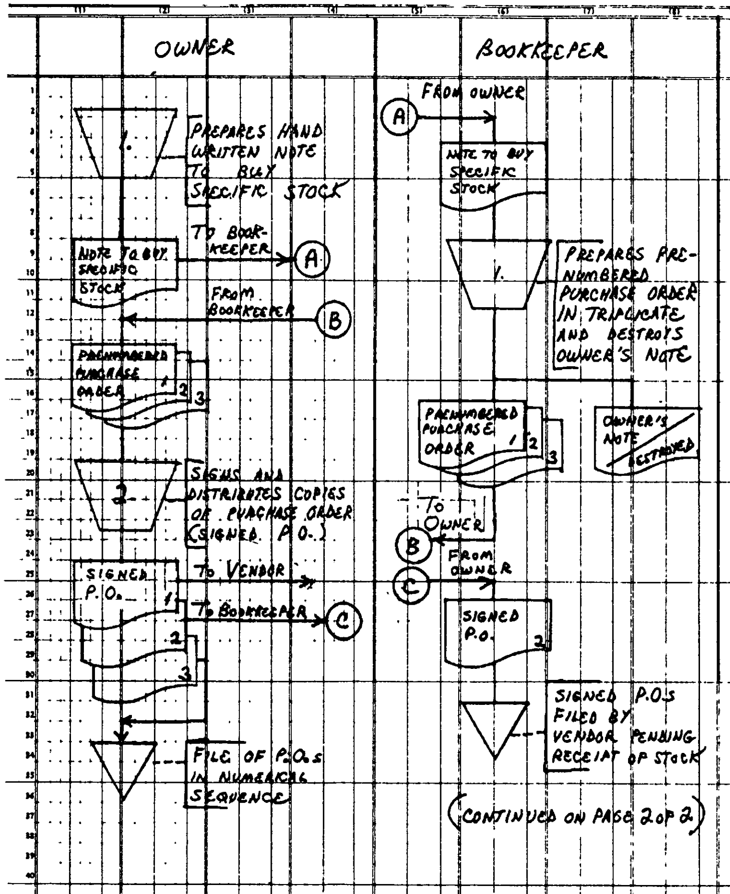
= Connector symbol. Used as a cross reference within a page or between pages.



= Comment or annotations symbol. This symbol is used to present comment or additional explanation which would not be able to fit within other symbols.

.11 KILROY WHOLESALE GROCERY
PURCHASES AND RECEIPT OF STOCK PAGE 1 of 2
TRANSACTION PROCESSING FLOW CHART

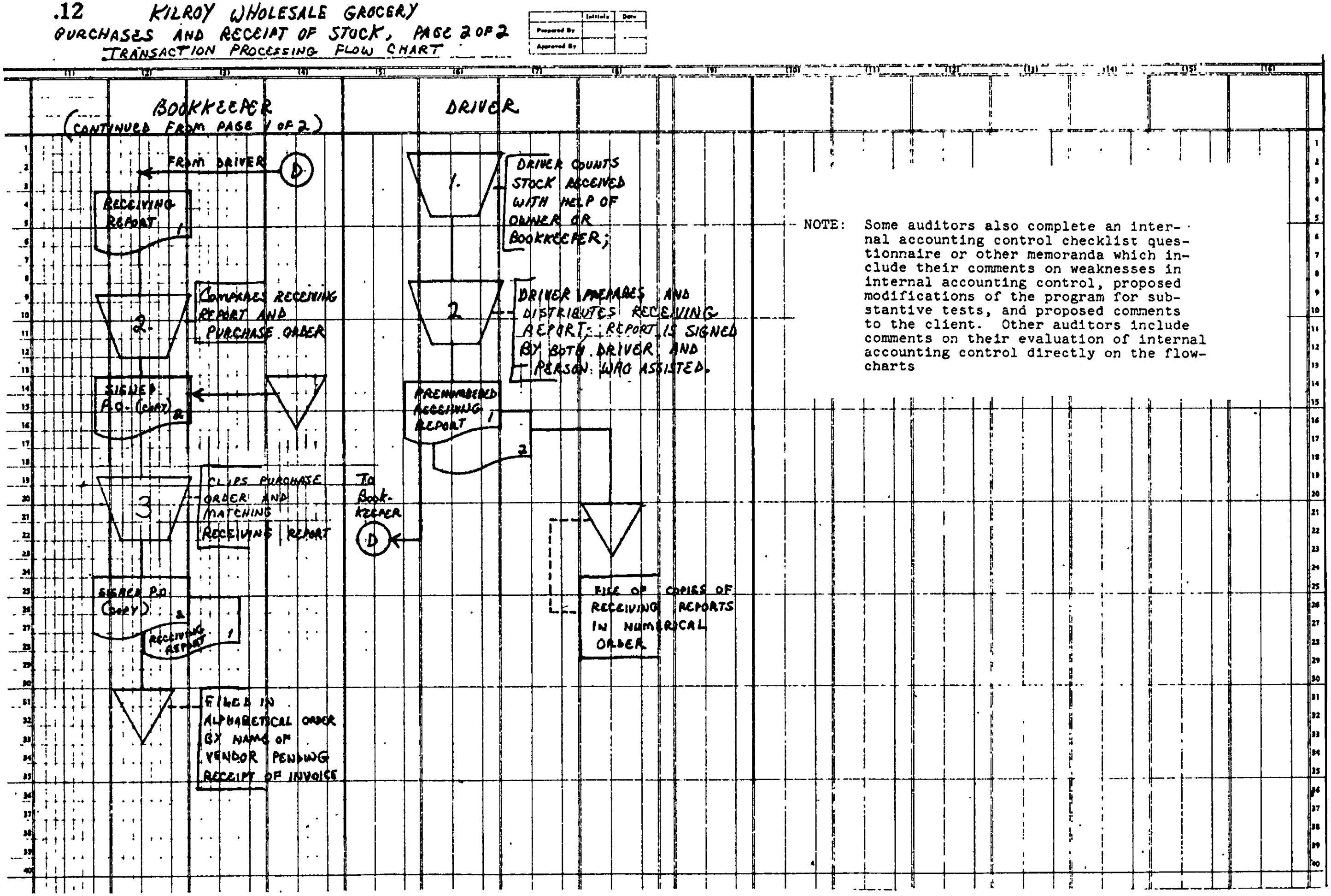
	Initials	Date
Prepared By	A.B.	9/25/78
Approved By	C.D.E.	9/30/78



(CONTINUED ON PAGE 2 OF 2)

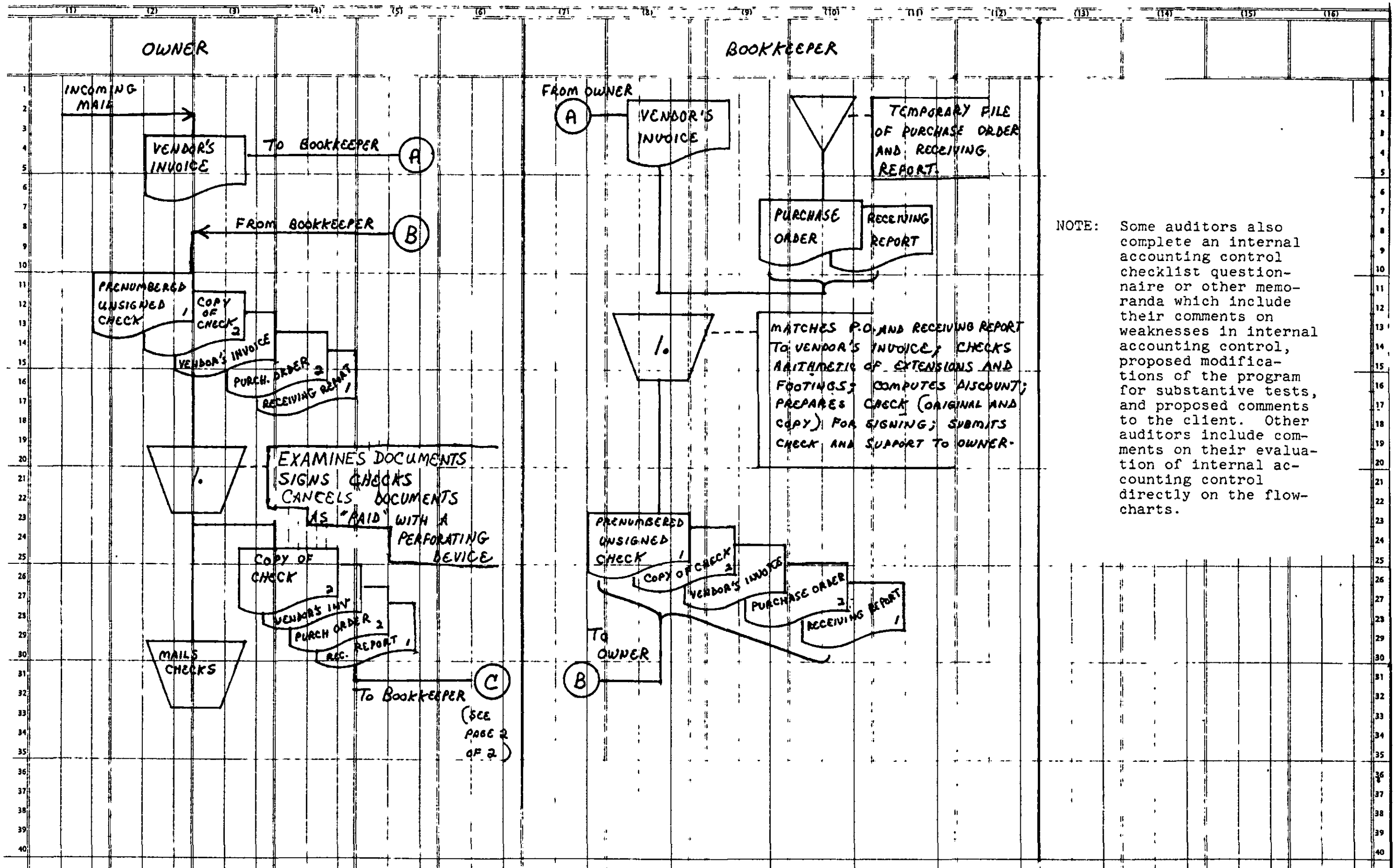
NOTE: Some auditors also complete an internal accounting control checklist questionnaire or other memoranda which include their comments on weaknesses in internal accounting control, proposed modifications of the program for substantive tests, and proposed comments to the client. Other auditors include comments on their evaluation of internal accounting control directly on the flowcharts.

.12 KILROY WHOLESALE GROCERY
PURCHASES AND RECEIPT OF STOCK, PAGE 2 OF 2
TRANSACTION PROCESSING FLOW CHART



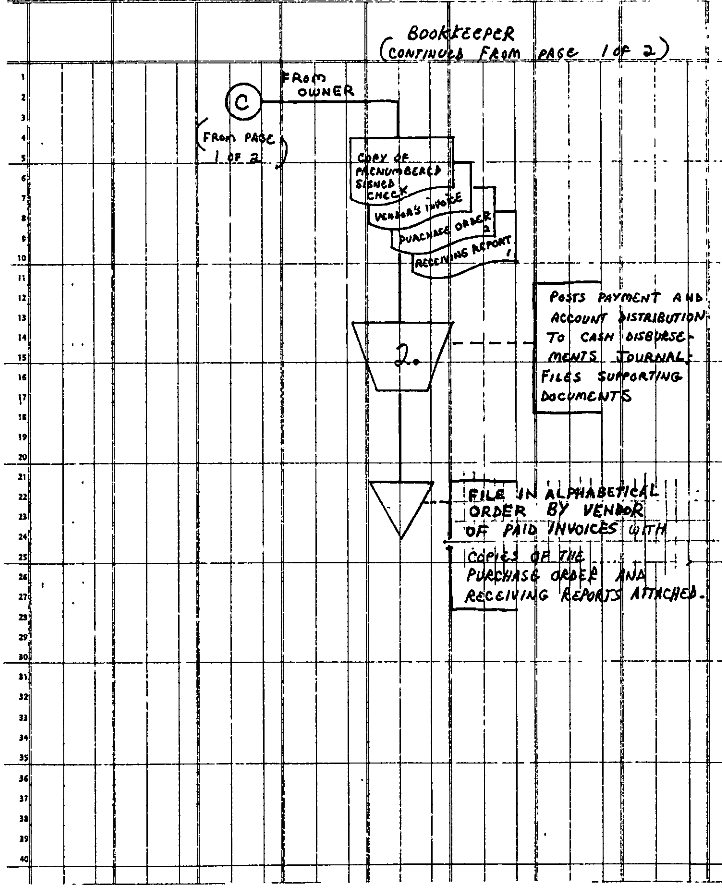
.13 KILROY WHOLESALE GROCERY
CASH DISBURSEMENTS FOR PURCHASES, PAGE 1 of 2
TRANSACTION PROCESSING FLOW CHART

	Initials	Date
Prepared By	ABC	9/26/X8
Approved By	CDE	9/30/X8



.14 KILROY WHOLESALE GROCERY
CASH DISBURSEMENTS FOR PURCHASES, PAGE 2 OF 2
TRANSACTION PROCESSING: FLOW CHART

Prepared By ABC 9/26/X8
Approved CDE 9/30/X8



NOTE: Some auditors also complete an internal accounting control checklist questionnaire or other memoranda which include their comments on weaknesses in internal accounting control, proposed modifications of the program for substantive tests, and proposed comments to the client. Other auditors include comments on their evaluation of internal accounting control directly on the flowcharts.

AAM Section 5000

AUDIT APPROACH AND PROGRAMS

The material included in these sections on audit approach and programs is presented for illustrative purposes only. The comments, illustrative audit objectives and illustrative audit procedures are neither all inclusive nor are they prescribed minimums. The illustrative audit procedures are numbered merely to organize the materials; those numbers are not intended to imply completeness or a prescribed sequence. The nature, extent and timing of the auditing procedures to be applied on a particular engagement are a matter of professional judgment to be determined by the auditor based on the specific facts and circumstances.

This manual is a nonauthoritative kit of practice aids. Accordingly, these sections include minimal explanation and discussion of authoritative pronouncements. Users of this manual are urged to refer directly to applicable authoritative pronouncements when appropriate. Users should also note that this manual does not deal with specialized industry problems; reference should be made to applicable AICPA Industry Audit and Accounting Guides.

TABLE OF CONTENTS

Section		*Paragraph*
5100	Audit Approach	.01-.05
5200	Audit Programs	.01-.06
	Organization	.01-.04
	Extent of Detail	.05
	Sign-Off Provisions	.06
5400	Illustrative Audit Objectives and Audit Procedures	.010-.460
	General Matters	.030-.040
	Pre-Fieldwork	.030
	Fieldwork	.040

Section | Paragraph

5400 Illustrative Audit Objectives and Audit Procedures—Continued

Internal Accounting Control .... .050-.090
Revenue, Receivables and Receipts .... .050
Purchases, Accounts Payable and Disbursements .... .060
Payrolls .... .070
Cash Balances .... .080
Inventories and Cost of Sales .... .090
Illustrative Substantive Test Objectives and Procedures .... .100-.460
Cash .... .100-.120
Illustrative Audit Objectives .... .100
Illustrative Substantive Test Procedures .... .110-.120
Cash in Banks .... .110
Cash Funds and Petty Cash .... .120
Investments .... .130-.140
Illustrative Audit Objectives .... .130
Illustrative Substantive Test Procedures .... .140
Trade Accounts and Notes Receivable .... .150-.160
Illustrative Audit Objectives .... .150
Illustrative Substantive Test Procedures .... .160
Inventories .... .170-.230
Illustrative Audit Objectives .... .170
Illustrative Substantive Test Procedures .... .180-.230
Before Observation of the Physicial Inventory .180
Observation of the Physical Inventory .... .190
Summarization—Physical Quantities .... .200
Prices and Summarization—Monetary Units .210
Lower of Cost or Market Considerations .... .220
Other .... .230
Property and Equipment, and Related Depreciation .... .240-.250
Illustrative Audit Objectives .... .240
Illustrative Substantive Test Procedures .... .250
Prepaid Expenses, Deferred Charges, Intangibles and Other Assets .... .260-.270
Illustrative Audit Objectives .... .260
Illustrative Substantive Test Procedures .... .270
Accounts Payable .... .280-.290
Illustrative Audit Objectives .... .280
Illustrative Substantive Test Procedures .... .290
Accrued Liabilities Other Than Income Taxes .... .300-.310
Illustrative Audit Objectives .... .300
Illustrative Substantive Test Procedures .... .310

Section		Paragraph
5400	**Illustrative Audit Objectives and Audit Procedures—Continued**	
	Illustrative Substantive Test Objectives and Procedures—Continued	
	Income Taxes Accrued and Provided	.320-.330
	Illustrative Audit Objectives	.320
	Illustrative Substantive Test Procedures	.330
	Notes Payable, Long-Term Debt and Debt Equivalents	.340-.350
	Illustrative Audit Objectives	.340
	Illustrative Substantive Test Procedures	.350
	Stockholders' Equity	.360-.380
	Illustrative Audit Objectives	.360
	Illustrative Substantive Test Procedures	.370-.380
	Capital Stock and Additional Paid-In Capital	.370
	Retained Earnings	.380
	Revenues and Other Income	.390-.400
	Illustrative Audit Objectives	.390
	Illustrative Substantive Test Procedures	.400
	Operating and Other Expenses	.410-.420
	Illustrative Audit Objectives	.410
	Illustrative Substantive Test Procedures	.420
	Litigation, Claims and Assessments	.430-.440
	Illustrative Audit Objectives	.430
	Illustrative Substantive Test Procedures	.440
	Subsequent Events	.450-.460
	Illustrative Audit Objectives	.450
	Illustrative Substantive Test Procedures	.460

The next page is 5101.

AAM Section 5100

Audit Approach

.01 The approach to an audit may be broadly characterized by the following:

(1) Obtain an understanding of the various assertions which the client will make in its financial statements and the nature of the client's business and industry.

(2) Develop from the various assertions specific audit objectives which would, when accomplished, result in an examination made in accordance with generally accepted auditing standards.

(3) Develop audit procedures designed to achieve the specific audit objectives developed from the assertions.

Because financial statement assertions vary with the circumstances of individual engagements, the development of specific audit objectives and audit procedures will also vary.

.02 SAS No. 22 (AU section 311[1]) provides guidance on planning an audit. It specifically requires the preparation of a written audit program which sets forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the examination (SAS No. 22, paragraph 5; AU section 311.05). SAS No. 22 also notes that the form of the audit program and its content will vary; it does not prescribe how an audit program should be organized. It also states that as an examination progresses, changed conditions may make it necessary to modify planned audit procedures.

.03 SAS No. 39, as amended by SAS No. 43, paragraph 9 (AU section 350), provides guidance for planning, performing, and evaluating audit samples; the guidance applies equally to nonstatistical and statistical sampling. These illustrative audit procedures do not include any discussion of sampling techniques.

.04 These sections include various nonauthoritative working tools for audit programs including organization, extent of detail, sign-off provisions, and illustrative audit objectives and procedures.

.05 In developing audit programs, auditors should consider the requirements of authoritative accounting pronouncements. In particular, auditors might wish to review the requirements of statements on auditing standards that interpret the standards of field work (AU section 300).

The next page is 5201.

---

[1] Section reference in *AICPA Professional Standards.*

AAM Section 5200

Audit Programs

Organization

.01 SAS No. 22 (AU section 311) notes that the form of the audit program and its content will vary; it does not prescribe how an audit program should be organized.

.02 An audit program is usually divided into logical units. Generally, these units correspond with the financial statement classifications. This eases comparison of the steps in the audit program to the workpapers which support a particular financial statement caption. It also makes it easier to assign different auditors to audit areas. Another approach is to divide the program on the basis of transaction cycles that may have been identified in the review of internal control. This might facilitate a comparison of planned audit steps to the evaluation of internal accounting control.

.03 Proper captioning of audit programs aids the auditor in considering whether all key areas of the audit have been adequately planned.

.04 The work steps within the various sections of the audit program are also subdivided in one or more ways. One of the most common divisions is by planned performance dates—such as planning stage, preliminary work, work at balance sheet date, and wrapping up the engagement. Within these sections, steps might be grouped along audit objective lines. For example, an audit program for inventory might be segregated into areas such as physical inventory procedures, pricing tests, review for obsolescence, etc.

Extent of Detail

.05 SAS No. 22 (AU section 311) states that an audit program "should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the examination." As previously noted, this Statement also indicates that the form of the program and the extent of detail will vary. This is a matter of the auditor's judgment in the circumstances. Some auditors feel strongly that audit program steps should be very detailed to minimize misinterpretation by assistants. Other auditors, however, believe the program steps should be relatively general to avoid the possibility that assistants will execute steps by rote rather than use judgment. As a practical matter, the extent of detail in the program usually depends upon the skill and experience of the staff that is actually available to do the job. It also may depend upon how much continuity there is in the firm's experience with the client and how much detail the firm requires in its working papers. Some firms, for example, choose to require in their working papers comprehensive memoranda which present detailed narratives about the work steps performed in addition to analyses and schedules which include explanations of the work done. They believe such memoranda provide added assurance that the work done by assistants was adequately understood. The audit programs used by such firms would probably be less detailed. Other firms believe that a reasonably detailed audit program minimizes the need for such memoranda and enhances supervision.

Sign-Off Provisions

.06 Addition of sign-off provisions makes an audit program a control device as well as a planning tool. When auditors initial and date specific steps in an audit program as the work is completed, the program may serve as a means of readily telling how much of the work has been performed and how much remains to be done. Initialling or signing off specific steps in the program also effectively reminds the auditor that he or she is assuming responsibility for performing those steps. Some auditors provide space for additional information on their audit program formats. For example, some auditors may want the workpaper reference entered on the program for a particular work step as well as the auditor's initials. Some auditors include provision for entering the budgeted or planned time and identity of the staff who the plan calls for performing the work step as well as the actual time, date and initials of the person who did the work. Including such information in a program may be advantageous, particularly in larger, more complex audits. On the other hand, it must be noted that many auditors believe that such information in the program is unnecessary and costly to accumulate accurately.

The next page is 5401.

AAM Section 5400

Illustrative Audit Objectives and Audit Procedures

.010 Some audit procedures (for example, tracing the bank balance per the bank reconciliation to the confirmation received from the bank) lend themselves to routine language. To draft this type of routine language for each engagement is time consuming. As a result, some auditors maintain lists of illustrative audit objectives and audit procedures as sources of routine language to save time when developing audit programs for specific engagements. Other auditors may refer to copies of programs from previous or similar engagements for the same purpose. In either case, the source of routine language is a mere manuscript aid subject to the auditor's professional judgment. The auditor's professional judgment must be applied in deciding whether the program includes all of the procedures required in the particular circumstances. The manuscript aid serves solely as a timesaver. Users of manuscript aids must remain alert to needs such as the following:

- Developing steps for required procedures which are not covered by the manuscript aid.
- Excluding extraneous and unnecessary procedures which are covered by the manuscript aid.
- Editing or modifying the manuscript to suit the needs and preferences of the auditor in the circumstances.

.020 Following is a list of illustrative audit objectives and procedures which are numbered merely to organize the materials; the numbers are not intended to imply completeness or a prescribed sequence. This list is merely illustrative. Some auditors may find the items too wordy, others may find them too terse, and still others may prefer a different set of items organized in a different manner. Users of this material must use professional judgment and be alert for the important matters in a particular set of circumstances which may not be covered in the illustrative material.

.021 The illustrative audit objectives and procedures contemplate reliance on the system of internal accounting control. If the auditor will not rely on the system to restrict substantive tests, it may be necessary to extend such tests to compensate for not relying on internal accounting control procedures.

General Matters

.030 Pre-Fieldwork

Illustrative Procedures

1. Review correspondence files, prior year's audit working papers, permanent files, financial statements, and auditor's reports.
2. Discuss matters that may affect the examination with firm personnel responsible for non-audit services to the entity.
3. Inquire about current business developments affecting the entity.
4. Read the current year's interim financial statements.
5. Discuss the type, scope, and timing of the examination with management of the entity, the board of directors, or its audit committee.
6. Consider the effects of applicable accounting and auditing pronouncements, particularly new ones.
7. Coordinate the assistance of entity personnel in data preparation.
8. Determine the extent of involvement, if any, of consultants, specialists, and internal auditors.
9. Establish the timing of the audit work.
10. Establish and coordinate staffing requirements.
11. Comply with firm policy on engagement letters.
12. Comply with firm policy on holding planning conferences with assistants assigned to the engagement.
13. Comply with firm policy on preparing a memorandum setting forth the preliminary audit plan.
14. Arrange with the client for such matters as adequate working space for the auditors and access to records.
15. Prepare or update a written audit program. (In practice, sections of the program may be prepared or updated at various times during the audit.)

.040 Fieldwork

1. Obtain copies of minutes for meetings of the stockholders, board of directors and important committees thereof such as the executive and finance committees; review and highlight matters of accounting significance.

   NOTE: Examples of such matters include but are not limited to authorization or approval of the following:

   - Related party transactions
   - Bank accounts (opening and closing accounts, changes in authorized signatures)
   - Financing agreements involving discounting of receivables

- Property and equipment (significant additions and retirements)
- Mergers and acquisitions
- Union agreements
- Officers' salaries
- Employee benefit plans such as pension plans, profit sharing, group life and health insurance, etc.
- Retention of legal counsel and/or discussion of pending, threatened, or completed litigation
- Debt agreements (including short- and long-term debt, pledging of assets as collateral, acceptance of restrictive covenants, etc.)
- Issuance or reacquisition of capital stock
- Subjecting capital stock to options, rights, warrants, and other conversion privileges
- Declaration of dividends
- Returns of capital to shareholders
- Leases
- Royalty agreements

2. Obtain and review copies of new agreements and new amendments to existing agreements (for example, debt and lease agreements, contractual terms of preferred stock issued, labor contracts, pension and other benefit plan agreements, deferred compensation contracts, stock options, etc.); highlight matters for which disclosure will be required in the financial statements (and notes).
3. Obtain (update) the understanding of the identity of related parties such as affiliates, principal owners, management and members of their immediate families, and entities for which the client's investments are accounted for on the equity method, and the business purpose of the significant types of related party transactions (see SAS No. 45; AU section 334). Provide audit personnel performing segments of the examination, or examining and reporting separately on the accounts of related components of the reporting entity, with the names of known related parties so that they may become aware of transactions with such parties during their examinations.
4. For trial balances and other schedules and analyses prepared by the client, perform the following:
   a. Trace amounts to the general ledger
   b. Re-perform the footings and crossfootings (test basis may be appropriate)

c. Trace opening balances to final balances per the working papers for the preceding year (period).

5. Communicate material weaknesses in internal accounting controls (see SAS No. 20; AU section 323).
6. Obtain written representation from management of the client (SAS No. 19; AU section 333).

NOTE: Many firms include other matters in the general sections of programs, such as disposition of proposed adjustments, report preparation and review, reconciliation of actual and estimated time, preparation of fee estimate for next year, evaluation of staff, etc.

Internal Accounting Control

.050 Revenue, Receivables, and Receipts

1. Review internal accounting control over sales orders, shipments, billings, accounts receivable and cash receipts. Prepare or update the recorded understanding in accordance with firm policy (narrative memoranda, completion of a questionnaire, flowcharts, etc.)
2. Consider selecting one or a few completed sales transactions representing each major type of sale; trace each selected transaction through the related documents and records from inception to ultimate disposition, noting the following: [1]
   a. Authorization of the transaction(s) in accordance with prescribed procedure. (For example, approval of sales orders or job orders based on a customer's purchase order or executed job contract; prior approval of the customer's credit; comparison of prices with an authorized price list, etc.)
   b. Evidence of completion and shipment of the customer's order. (For example, carrier's bill of lading, receipt signed by the customer, etc.)
   c. Evidence of billing and recording of the sale and related charge to cost of sales. (For example, sales invoice recorded in the sales journal and accounts receivable subsidiary ledger; credit to inventory and charge to cost of sales recorded based on the completed job order.)
   d. Evidence of collection as a cash receipt. [For example, trace transaction to the entry for the related remittance (as a collection on an individual transaction billing or monthly statement billing) recorded in the accounts receivable subsidiary ledger, cash receipts journal, and its inclusion in the daily deposit recorded on the bank statement.]

---

[1] This practice may be useful to clarify an understanding of prescribed internal accounting control procedures, and may be considered as a part of the tests of compliance.

3. Make a preliminary evaluation of internal accounting control, and design and perform compliance tests (SAS No. 1, section 320.56-.63 and SAS No. 43, paragraph 2; AU section 320.59-.67) of the specific prescribed procedures expected to be relied upon in determining the nature, extent and timing of substantive tests of shipments, sales, discounts, sales returns, credits allowed, cash receipts and trade receivables. (For illustrative compliance tests, see items 5 through 11.)
4. Evaluate internal accounting control for shipments, sales, discounts, sales returns, credits allowed, cash receipts and trade receivables (see SAS No. 1, section 320.64-.68; AU section 320.68-.72) and:
   a. Record matters considered and conclusions reached in making the evaluation in accordance with firm policy (completion of questionnaires, checklists, preparation of required memoranda, etc.).
   b. Based on the evaluation, make necessary modifications to applicable sections of the program for substantive tests.
   c. Identify and note material weaknesses in internal accounting control to be brought to the client's attention (SAS No. 20; AU section 323).
   d. Identify and note other internal accounting control matters to be brought to the client's attention.

   NOTE: The evaluation of internal accounting control may affect substantive tests of revenues and receivables in, for example, the following aspects:

   - Extent and method of selection of accounts for confirmation.
   - Use of positive or negative forms of confirmation request, or a combination of both.
   - Timing of confirmation procedures.
   - Type of information needed on the confirmation request to facilitate responses.
   - Anticipated scope of alternative procedures as to significant accounts which do not respond to confirmation requests.
   - Nature and extent of tests to substantiate sales cut-off.
   - Nature and extent of tests to substantiate deferral and realization of revenue in such situations as unearned subscription income or unearned finance charges on installment receivables.

- Approach to reviewing and evaluating adequacy of the allowance provided for doubtful accounts (review of allowances for specific accounts, comparison of experience relating to writeoffs with sales and receivables and the client's past and present credit policies and practices, etc.).

Illustrative Compliance Tests

5. Obtain the sales journal and for a selected period(s):
   a. Trace totals from the sales journal to the general ledger control accounts for revenues, receivables and such other accounts as salesmen's commissions, provisions and allowances for product warranties, etc.
   b. Trace selected individual items from the sales journal to such other subsidiary records as the salesmen's commissions detail, and entries to charge cost.
   c. Reconcile the sales journal to the entries to charge cost of sales and credit inventory.
   d. Test the arithmetic accuracy of the footings and crossfootings of the journals.

6. Select .... entries from the sales journal made at various times throughout the year, obtain the supporting documents and perform the following tests:
   a. Compare the sales invoices with the entries in the sales journal for invoice date, invoice number, identity of customer, dollar amount and any related items such as sales tax, salesmen's commissions, etc.
   b. Trace the sales invoice to the accounts receivable subsidiary (customers) ledger and to evidence of subsequent payment (remittance advice and cash receipts records).
   c. Compare the sales invoice for customer identity, description of product, price, quantities, and amounts, to the applicable sales order, and customer's purchase order or job contract. Note evidence of approval of prices and credit as prescribed by management.
   d. Compare customer identity, description of product, and quantities per the sales invoice to the documents evidencing shipment; test computations of related freight and insurance charges. Ascertain whether sales are recorded in the proper months.
   e. Trace prices, discount and payment terms to such sources as price lists, job quotations, and job contracts.
   f. Test arithmetic accuracy of extensions, footings and computation of discounts. Note evidence of performance of a clerical check by client staff, where applicable.

g. If the client charges cost of sales and credits inventory as items are sold, trace detail per the sales invoice to subsidiary records for cost of sales and inventory.

7. Review the numerical sequence file of shipping orders for a selected period and account for missing numbers.

8. Select .... shipping orders prepared at various times during the year. Obtain related sales invoices and trace them to the sales journal. Note whether billings are timely for shipments made.

9. Select .... credit memorandums issued at various times during the year; ascertain whether credits were authorized in accordance with prescribed procedure; review available supporting documentation; trace the memorandums to the sales journal or other appropriate journal and to the accounts receivable subsidiary ledger. If the credit is granted for return of goods, inspect evidence of return and ascertain whether accounting for the returned goods is consistent with reported condition of the returned goods.

10. Obtain the cash receipts journal and perform the following on a test basis for a selected period(s):

    a. Trace totals to the general ledger for both the cash account and applicable account distributions such as accounts receivable, cash sales, investment income, and additions to notes payable (re proceeds).

    b. Test the arithmetic accuracy of the footings and crossfootings of the cash receipts journal; reconcile total receipts to total deposits per the bank statement.[2]

11. From the cash receipts journal, select .... cash receipts entered during the year; obtain the supporting remittance advices and perform the following:

    a. Compare the remittance advices with applicable entries per the cash receipts journal and trace to deposits per the bank statement(s). Ascertain the promptness of the deposit and recording of the entries.

    b. Trace detail posting of cash receipts to the accounts receivable, notes receivable, or other appropriate subsidiary ledger. Ascertain whether cash receipts and related credits to accounts receivable are recorded consistently in the proper period.[2]

[2] Steps 10 and 11 above are duplicated as steps 8 and 9, respectively, under illustrative compliance tests for cash because some auditors prefer to group this type of test under that heading.

.060 Purchases, Accounts Payable and Disbursements

1. Review internal accounting control over purchasing and receiving of goods and services and the processing and payment of vendors' invoices. Prepare or update the recorded understanding of internal accounting control in accordance with firm policy (narrative memoranda, completion of a questionnaire, flowcharts, etc.).

2. Consider selecting one or a few processed invoices representing each major type of purchase transaction; trace each selected transaction through the related documents and records from inception to ultimate disposition, noting the following:[3]

    a. Authorization in accordance with prescribed procedure. (For example, properly approved purchase orders or blanket purchase orders, executed term contracts such as leases and service agreements, properly approved requests for payment, etc.)

    b. Evidence of receipt of the goods or services. (For example, receiving reports or such equivalents as receiving copies of purchase orders, approval of utility and service billings by designated operating management, advice of engineers or consultants on performance of services, etc.)

    c. Evidence of processing the vendor's invoice and approval before payment. (For example, matching with an approved purchase order and with a receiving report, indication that extensions, discounts and footings were recomputed, indication of proper account distribution, date and signature or initials indicating approval for payment.)

    d. Evidence on the processed invoice(s) indicating reference to the specific payment made and sufficiently prominent cancellation to avoid duplicate payment.

    e. Evidence of payment. (Examine the paid check(s) and (i) compare check number, date, identity of payee, and amount to the processed invoice(s); (ii) trace the signatures on the check(s) to a list of authorized check signers; and (iii) compare the endorsement to the name of the payee for reasonableness (identity with name of payee or guarantee of endorsement by a bank).

    f. Recording of paid check(s) in the cash disbursement journal as to check number, date, name of payee, amount and account distribution.

---

[3] This practice may be useful to clarify an understanding of prescribed internal accounting control procedures, and may be considered as a part of the tests of compliance.

g. If an accounts payable or voucher register is used, evidence that the processed invoice(s) is correctly recorded in the voucher register as to voucher number, date, identity of payee, amount and account distribution.

3. Make a preliminary evaluation of internal accounting control and design and perform compliance tests (SAS No. 1, section 320.56-.63 and SAS No. 43, paragraph 2; AU section 320.59-.67) of the specific prescribed procedures expected to be relied upon in determining the nature, extent and timing of substantive tests of accounts payable, cash disbursements, inventory costs, property and equipment purchases, and cost of sales, selling, general, administrative and other expenses. (For illustrative compliance tests see items 5 through 9.)

4. Evaluate internal accounting control for purchasing, receiving, processing and payment of vendors' invoices (see SAS No. 1, section 320.64-.68; AU section 320.68-.72) and:

   a. Record matters considered and conclusions reached in making the evaluation in accordance with firm policy (completion of questionnaires, checklists, preparation of required memoranda, etc.)

   b. Based on the evaluation, make necessary modifications to applicable sections of the program for substantive tests.

   c. Identify and note material weaknesses in internal accounting control to be brought to the client's attention (SAS No. 20; AU section 323).

   d. Identify and note other internal accounting control matters to be brought to the client's attention.

   NOTE: The evaluation of internal accounting control may affect substantive tests of purchases and accounts payable in, for example, the following aspects:

   - Extent of analytical review and tests of details of transactions and balances regarding classification of costs or expenses and charges to accounts such as property and equipment and prepaid expenses.
   - Time interval between receiving goods and services and invoicing by vendors (may affect design and extent of cut-off tests).
   - Extent of testing of details of transactions and balances to substantiate recorded payables and search for unrecorded liabilities as of the balance sheet date.
   - Need for and extent of confirmation of payables from vendors.

Illustrative Compliance Tests

5. Obtain the voucher register and for a selected period(s):
   a. Trace totals to the general ledger for both accounts (vouchers) payable and the various account distributions.
   b. Trace postings to other subsidiary registers, if used (for example, property tax register).
   c. Test the arithmetical accuracy of the footings and cross-footings of the voucher register for a test period(s).
6. Select .... entries from the voucher register for various months throughout the year, obtain supporting documents and perform the following tests:
   a. Compare the entry in the voucher register of the vendor's invoice as to date, payee, description and amount and test the clerical accuracy of the invoice.
   b. Determine that the invoice is supported by (i) an approved purchase order or payment request form and, if applicable, a properly executed purchase requisition and (ii) a signed receiving report or other evidence of receipt of services or goods.
   c. Determine that the account distribution in the voucher register is reasonable and in agreement with the purchase order.
   d. Determine that purchase discounts have been properly recorded.
   e. Determine that freight has been billed in conformity with the purchase order.
   f. Examine the cancelled check issued in payment of the invoice for date, payee, amount, signature and endorsement. Trace to cash disbursements journal.
   g. Inspect the voucher for evidence of clerical check, approval of payment as prescribed by management, and appropriate cancellation.
7. Review the numerical sequence files of receiving reports and of purchase orders and determine whether missing numbers are accounted for. (Failure by the client to do so increases the risk that unrecorded liabilities may exist.)
8. Obtain the cash disbursements journal and perform the following on a test basis:
   a. Trace postings for a selected period(s) to the general ledger for both the cash accounts and applicable account distributions.
   b. Trace postings for a selected period(s) to other applicable subsidiary records, if present (for example, voucher or purchase journal, insurance and property tax registers, plant ledger, etc.).

c. For a selected period(s), foot and crossfoot the cash disbursements journal; reconcile total disbursements to the bank statement.[4]

9. Review the numerical sequence of checks issued for a selected period and account for missing numbers as void or included on the list of outstanding checks. Select ..... checks drawn at various times during the year from the disbursements journal and obtain the paid checks and supporting detail for the disbursements:

   a. Examine the paid checks and trace identity of signatures to the list of authorized check signers. (Consider requesting confirmations from banks of authorized check signers.)

   b. Compare paid check and supporting detail to the cash disbursements journal for check number, date drawn, payee, amount, and account distribution.

   c. Compare identity of payee to endorsement; review checks for unusual endorsements and schedule those found for further investigation.[5]

.070 Payrolls

1. Review internal accounting control over payrolls, including account distribution of wages, salaries and commissions, payroll withholdings, deductions and net pay, and related payroll taxes. Prepare or update the recorded understanding in accordance with firm policy (narrative memoranda, completion of a questionnaire, flowcharts, etc.).

2. Consider selecting one or a few employees from the payroll registers representing each major type of payroll transaction (for example, employees compensated on an hourly basis, on a piecework basis, on a salary basis subject to overtime, and salesmen compensated on a commission basis; also, officers salaries, employees paid by check and paid by cash, etc.). Trace each selected transaction through the related documents and records from inception to ultimate disposition noting the following:[6]

   a. Authorization of rate of pay. (For example, memoranda in the personnel files evidencing approval as prescribed by management, union contracts, approved rate or salary schedules, authorization of officer's salaries per minutes of board of directors meetings.)

---

[4] Steps 8 and 9 are duplicated as steps 6 and 7 respectively under illustrative compliance tests for cash because some auditors prefer to group them under that heading.

[5] See footnote 4.

[6] This practice may be useful to clarify an understanding of prescribed internal accounting control procedures, and may be considered as a part of the test of compliance.

b. Evidence in support of payment. For example:

- Time cards or records, which have been approved as prescribed, for employees paid on an hourly basis and for employees paid for overtime.
- Production reports, which have been approved as prescribed, for employees paid on a piece-work basis.
- Attendance records for salaried employees.
- Sales and commission registers, and evidence that advance drawings for commission salesmen had been approved as prescribed.

c. Evidence in support of payroll withholdings. (For example, signed W-4 forms and other proper authorizations.)

d. Evidence in support of payment. (For example, canceled payroll checks, noting date, check number, name of payee and comparing net pay to the payroll register, signature to list of authorized check signers, and endorsement to the signed W-4 forms; for employees paid by cash, comparing amount on the receipt signed by employee with the payroll register and signature to the signed W-4 form.)

e. Evidence of review of payroll for clerical accuracy, reasonableness, and account distribution, as prescribed by management.

f. Evidence of individual payroll records. (For example, the individual payroll entry to the records used to accumulate year to date employee compensation for such purposes as preparation of payroll tax returns and W-2 forms.)

3. Make a preliminary evaluation of internal accounting control and design and perform compliance tests (SAS No. 1, section 320.56-.63 and SAS No. 43, paragraph 2; AU section 320.59-.67) of the specific prescribed procedures expected to be relied upon in determining the nature, extent and timing of substantive tests of payroll. (For illustrative compliance tests, see items 5 through 7.)

4. Evaluate internal accounting control for payroll, including cost and expense account distributions, liabilities for payroll withheld and deducted and related payroll taxes (see SAS No. 1, section 320.64-.68; AU section 320.68-.72) and:

   a. Record matters considered and conclusions reached in making the evaluation in accordance with firm policy (completion of questionnaires, checklists, preparation of required memoranda, etc.)

b. Based on the evaluation, propose necessary modifications to applicable sections of the program for substantive tests.

c. Identify and note material weaknesses in internal accounting control to be brought to the client's attention (SAS No. 20; AU section 323).

d. Identify and note other internal accounting control matters to be brought to the client's attention.

NOTE: The evaluation of internal accounting control may affect substantive tests of payroll in, for example, the following aspects:

- The extent to which analytical procedures are applied to payroll costs and expenses and the extent to which fluctuations are investigated.
- Whether, and to what extent, gross pay is reconciled to individual earnings records.
- Whether, and to what extent, a payoff is made.
- The extent to which labor charges to property and equipment and to inventory are tested.
- The extent to which payroll taxes withheld and accrued are tested.

Illustrative Compliance Tests

5. Obtain the payroll register for a selected period(s):

a. Trace totals per the register through applicable payroll summaries to the paid check used to transfer cash for net pay to the payroll bank account, and to postings in the general ledger (and cost accounting records if applicable) for wage and salary cost and expense distributions, and liabilities for payroll withheld and deducted.

b. Trace payroll withheld through applicable subsidiary records to the payroll tax returns. Review the payroll tax returns; examine the check remitting withholdings to the governments (federal and state) and trace to the general ledger liability accounts.

The next page is 5413-3.

c. Determine whether payroll was approved in accordance with prescribed procedures. (For example, approval might be a signature on a payroll summary and request for the deposit of net pay to the payroll bank account; the signature on the check used to transfer money to the payroll bank account; approvals directly on the registers, etc.)

d. Test the arithmetical accuracy of the footings and crossfootings of the payroll register.

6. Select .... entries from the payroll register made at various times throughout the year, and perform the following procedures:

   a. Examine authorization for rate of pay and evidence in support of payment (for example, time records, piece work production reports or other documentation which has been approved as prescribed by management) and on a test basis recompute gross pay.

   b. Examine proper authorizations for payroll withholdings such as signed W-4 forms and on a test basis recompute amounts withheld.

   c. Test arithmetical accuracy of net pay based on gross pay less deductions.

   d. Examine cancelled checks noting date, check number, name of payee and comparing net pay to the payroll register, signature to list of authorized check signers, and endorsement to the signed W-4 forms.

   e. Examine signed receipt for employees paid by cash, compare amount on the receipt with the payroll register and compare signature to the signed W-4 form.

   f. Compare the individual payroll entry on the payroll register to the records used to accumulate year-to-date employee compensation for such purposes as preparation of payroll tax returns and W-2 forms.

7. Consider, based on the preliminary evaluation, whether to:

   a. Observe the distribution of payroll checks or cash, including control of unclaimed wages.

   b. Physically observe selected employees in the performance of their duties.

.080 Cash Balances

1. Review internal accounting control of cash balances (in banks and on hand) and cash receipts and disbursements. Prepare (or update) the recorded understanding in accordance with firm

policy (narrative memoranda, completion of a questionnaire, flowcharts, etc.).

NOTE: The understanding should include, among other matters, the following:

- Identity of all bank accounts used during the year, their approximate activity and balances, purpose (for example, general account, cash receipts depository, payroll account, branch office account, etc.), and authorized signatures for each account.
- Location, custodian, approximate amount and purpose of all cash funds.

2. Make a preliminary evaluation of internal accounting control and design and perform compliance tests (SAS No. 1, section 320.56-.63 and SAS No. 43, paragraph 2; AU section 320.59-.67) of the specific prescribed procedures expected to be relied upon in determining the nature, extent and timing of substantive tests of cash balances, receipts and disbursements (for illustrative compliance tests, see steps 4 through 10).

3. Evaluate internal accounting control of cash, and:
   a. Record matters considered and conclusions reached in making the evaluation in accordance with firm policy (completion of questionnaires, checklists, preparation of required memoranda, etc.).
   b. Based on the evaluation make necessary modifications to applicable sections of the program for substantive tests.
   c. Identify and note material weaknesses in internal accounting control to be brought to the client's attention (SAS No. 20; AU section 323).
   d. Identify and note other internal accounting control matters to be brought to the client's attention.

   NOTE: The evaluation of internal accounting control may affect substantive tests of cash transactions and balances in, for example, the following aspects:

   - The number of days following the balance sheet date for which cut off bank statements should be obtained.
   - The extent to which (if any) tests of cash balances can be performed at interim dates.
   - The extent to which testing of outstanding checks, deposits in transit, and other reconciling items can be restricted.
   - The number of days before and after the balance sheet date which should be used for the testing of bank transfers.
   - Whether all bank transfers during the selected period or only those over a selected dollar amount should be tested.
   - Whether petty cash funds should be counted or confirmed with the custodian as of the balance sheet date.
   - Whether petty cash funds should be counted on a surprise basis.
   - The need for coordination of cash counts with inspection of marketable securities and other investments.

Illustrative Compliance Tests

4. Review the client's bank reconciliations; for a selected period(s) perform the following tests of the bank reconciliation(s) and related listings of outstanding checks:
   a. Prove the arithmetic accuracy of the bank reconciliation, including the list of outstanding checks.

b. Trace the bank balance to the bank statement and the book balance to the general ledger account.

c. Trace the paid checks accompanying the bank statement to the cash disbursements journal and outstanding checklist for the preceding month-end.

d. Trace deposits per the bank statement to the cash receipts journal and deposits in transit per bank reconciliations of the preceding month-end.

e. Trace deposits in transit to the bank statement for the following month; note whether the time interval between the dates per book and bank appear reasonable.

f. Trace outstanding checks to paid checks which accompanied the bank statement for the month(s) subsequent to the reconciliation tested; compare paid checks to the cash disbursements journal and inspect signature(s) and endorsements.

g. Trace other reconciling items to supporting documents and check subsequent disposition.

5. Consider preparing a proof of cash for a test period including the tests described in step 4 above and the following:

a. Trace totals per the cash receipts and disbursements journals to the general ledger cash accounts; identify and obtain explanations for significant and unusual cash entries in the general ledger during the test period. Foot the receipts and disbursements journals and prove the arithmetic between the opening and closing general ledger cash balances for the test period.

b. Prove the arithmetic accuracy of the bank statement by footing the deposits and disbursements, adding the opening balance and deducting the closing balance and ascertaining that the resulting difference equals total disbursements.

c. Account for all deposits per books as deposits per bank or deposits in transit. Determine that deposits are made on a timely basis.

d. Review the numerical sequence of checks issued during the period, accounting for them as paid during the period, included on the list of outstanding checks, or void. Determine that void checks have been properly mutilated.

NOTE: The working paper format for step 5 would present reconciliations of total receipts and disbursements per the cash books to the respective total credits and charges per the bank statement(s) in addition to reconciliations of the bank and book balances at the beginning and end of the selected period. This working paper format may be used to reconcile total activity per the cash books and bank statements for various time periods such as a month or several months.

6. Obtain the cash disbursements journal and perform the following on a test basis (elements of this step are also included in step 5 above):
   a. Trace postings for a selected period(s) to the general ledger for both the cash accounts and applicable account distributions.
   b. Trace postings for a selected test period(s) to other applicable subsidiary records, if present (for example, voucher or purchase journal, insurance and property tax registers, plant ledger, etc.).
   c. For a selected period(s) foot and cross foot the cash disbursements journal; reconcile total disbursements to the bank statement.[7]
7. Review the numerical sequence of checks issued for a selected period and account for missing numbers as void or included on the list of outstanding checks. Select .... checks drawn at various times during the year from the disbursements journal and obtain the paid checks and supporting detail for the disbursements:
   a. Examine the paid checks and trace identity of signatures to the list of authorized check signers. (Consider requesting confirmations from banks of authorized check signers).
   b. Compare paid checks and supporting detail to the cash disbursements journal for check number, date drawn, payee, amount and account distribution.
   c. Compare identity of payee to endorsement; review checks for unusual endorsements and schedule those found for further investigation.[7]
8. Obtain the cash receipts journal and perform the following on a test basis for a selected period(s) (elements of this step are also included in step 5 above):
   a. Trace totals to the general ledger for both the cash account and applicable account distributions such as accounts receivable, notes receivable, cash sales, investment income, and additions to notes payable (re proceeds).
   b. Test the arithmetic accuracy of the footings and crossfootings of the cash receipts journal; reconcile total receipts to total deposits per the bank statement.[7]

[7] Steps 6 and 7 above are duplicated as steps 8 and 9 respectively under illustrative compliance tests for purchases, accounts payable and disbursements because some auditors prefer to group them under that heading. Likewise, steps 8 and 9 above are duplicated as steps 10 and 11 under illustrative compliance tests for revenues, receivables and receipts.

9. From the cash receipts journal, select .... cash receipts entered during the year; obtain the supporting remittance advices and perform the following:
   a. Compare the remittance advices with applicable entries per the cash receipts journal and trace to deposits per the bank statement(s). Ascertain the promptness of the deposits and recording of the entries.
   b. Trace detail posting of cash receipts to the accounts receivable, notes receivable or other appropriate subsidiary ledger. Ascertain whether cash receipts and related credits to accounts receivable are recorded consistently in the proper period.[8]

10. Select the paid check(s) to reimburse the petty cash fund(s) from the cash disbursements journal; examine the voucher and paid check for consistency with the disbursement journal and prescribed approval and account distribution, and perform the following tests:
    a. Foot supporting evidence by account distribution and trace total to reimbursement voucher.
    b. Trace reimbursement voucher to cash disbursements journal and petty cash book.
    c. Examine petty cash vouchers for the following:
       - Prepared in ink
       - Approved
       - Cancelled after reimbursement
       - Dated
       - Payee
       - Amount
       - Signature
       - Account charged
       - Numbered consecutively
       - Reasonableness of amount and business purpose

.090 Inventories and Cost of Sales

1. Review and make a preliminary evaluation of internal accounting control over cost of production and inventory.[9] Prepare or update the recorded understanding in accordance with firm policy (narrative memoranda, completion of a questionnaire, flow charts, etc.)

---

[8] See footnote 7.

[9] Procedures relating to inventories and cost of sales are closely related or the same as those reviewed for sales, purchases and payroll. Thus, while the auditor frequently observes the form of records used by the client, it is usually not necessary to trace inventory transactions, as such, through the records to clarify the understanding of the system.

NOTE: Matters to consider in making the review include, but are not limited to, the following:

- Nature of the client's operations and inventories.
- Physical location of inventories.
- How costs of material, direct labor, and overhead are accumulated; this may be coordinated with the study and evaluation of purchases and payroll and includes evaluation of the cost accounting system used (job order, process, standard costs, etc.).
- Accounting principles followed in assigning costs to inventory (FIFO, LIFO, retail method, etc.).
- Whether perpetual inventory records are used and, if so, how they are tested.
- Frequency and method of physically counting the inventory and adjusting the records to the physical.

2. Based on the preliminary evaluation, design and perform compliance tests of the specific prescribed procedures expected to be relied upon in determining the nature, extent and timing of substantive tests of cost of sales and inventory. (See items 4 through 8 for illustrative compliance tests for inventory and cost of sales.)[10]

3. Evaluate internal accounting control for cost of sales and inventory and:

   a. Record the matters considered and conclusions reached in making the evaluation in accordance with firm policy (completion of questionnaires, checklists, preparation of required memoranda, etc.)

   b. Based on the evaluation, make necessary modifications to applicable sections of the program for substantive tests.

   c. Identify and note material weaknesses in internal accounting control to be brought to the client's attention (SAS No. 20; AU section 323).

   d. Identify and note other internal accounting control matters to be brought to the client's attention.

   NOTE: The evaluation of internal accounting control may affect substantive tests of cost of sales and inventory in, for example, the following aspects:

[10] Some auditing procedures may serve to accomplish the purposes of both compliance and substantive tests. Certain steps that are listed here as illustrative compliance tests are also listed among illustrative substantive tests for inventory. They are listed here because they may serve to clarify and confirm the auditor's understanding of internal accounting control of inventory and cost of sales. They are listed as substantive tests because they provide evidence with respect to the client's accounting for cost of sales and cost of inventory.

- The extent to which physical inventories are observed and/or perpetual records tested.
- Whether physical inventories are taken at a preliminary date or at the balance sheet date.
- The extent to which consigned inventories are confirmed.
- The extent to which inventory prices are tested to supporting documentation.
- The extent to which analytical procedures are applied to cost of sales and the extent to which fluctuations are investigated.
- The extent to which cutoffs are tested.
- The extent to which inventories are tested for obsolete or excess stock.

Illustrative Compliance Tests

4. Tour the client's manufacturing or production facilities with a member of the client's organization familiar with production.
5. On a test basis, select transactions for additions and deletions of inventory from such sources as receiving reports, requisitions to place materials into production, and shipping documents. Note the reference or control number, date, description, quantity and dollar amount for each transaction selected. Trace the transactions to the perpetual inventory record and the cost accounting records, if any, used to determine unit or job costs. Perform similar tests selecting the transactions from the perpetual inventory records and/or cost accounting records and trace the transactions to receiving reports, requisitions and shipping documents.

   NOTE: This testing may be coordinated with compliance tests for purchases, payables and disbursements, and for revenues, receivables and receipts.
6. Obtain an analysis of overhead costs charged to inventories and over- or under-absorbed overhead. Review the amounts included in the overhead pool for propriety and perform the following:
   a. Determine that overhead costs are being charged to inventory in accordance with an appropriate policy (for example, as a percent of direct labor).
   b. Identify disposition of variances, if any, between actual overhead costs incurred and overhead costs applied to production and inventory. Determine that variances are reasonable. Determine that no excessive costs for idle plant are being charged to inventory.

7. If a job order cost system is used, obtain the job order ledger (or tabulation), select a period(s) and perform the following:
   a. Trace total costs incurred to the voucher register (or cash disbursements journal), the payroll distribution, and support for overhead applied.
   b. Test the footings of the job order ledger by refooting the detail for selected subtotals and refooting the subtotals.
   c. Select .... job orders for jobs in process and completed jobs and perform the following:
      (1) Examine authorization for the job order.
      (2) Trace materials used on a test basis at various times since inception of the job order to such supporting details as requisitions, purchase orders, receiving reports and processed invoices. (Consider coordination with compliance tests for purchases.)
      (3) Trace direct labor costs to account distributions of the payroll registers and on a test basis to individual time reports or time cards. (Consider coordination with compliance tests for payroll.)
      (4) Trace application of overhead costs to analyses used to accumulate overhead costs; test computations and review for reasonableness.
      (5) Identify the status of the job (work in process, finished goods, or goods shipped) and trace through necessary summarization to the applicable general ledger account. Obtain explanation for any unreasonable time lag between completion and shipping dates for job orders performed for specific customers.

8. For process cost systems, obtain the cost of production reports for each department within the production process for a selected period(s) and:
   a. Trace quantities and dollar amounts for units received for selected departments to the quantities and dollar amounts transferred out per the preceding department in the sequence of production.
   b. For each selected department, review the computations of total and unit costs for production transferred to the next department; on a test basis recompute unit costs and ascertain that costs for units lost in process are properly reallocated to surviving units.
   c. Trace materials costs charged to the selected departments to appropriate journals and on a test basis to individual requisitions.

d. Trace labor costs incurred to account distribution analyses of the payroll registers.

e. Review the allocation of overhead.

Illustrative Substantive Test Objectives and Procedures

Cash

.100 Illustrative Audit Objectives

To determine that:

- Cash exists and is owned by the entity.
- Cash balances reflect a proper cut off of cash receipts and disbursements.
- Cash balances as presented in the balance sheet properly reflect all cash and cash items on hand, in transit, or on deposit with third parties.
- Cash balances are properly classified in the financial statements and any restrictions on the availability of funds are properly disclosed.

Illustrative Substantive Test Procedures

.110 Cash in Banks

1. Confirm bank balances (using standard bank confirmation forms) as of the balance sheet date for all banks used during the year.
2. Arrange to obtain cut-off bank statements and related paid checks directly from the banks for .... days following the balance sheet date.
3. Obtain or prepare a comparative listing of the component bank account and petty cash fund balances as of the closing and opening balance sheet dates for the year (period) being audited:
   a. Refoot the schedule and trace totals to the financial statement assembly sheets.
   b. Trace closing balances to the general ledger and working papers on bank reconciliations and petty cash funds.
   c. Trace opening balances to the working papers for the preceding audit.
   d. For bank accounts opened and closed during the year (period) trace to authorization in the minutes of the board of directors meetings.
4. Obtain copies of the bank reconciliations as of the balance sheet date and perform the following:

a. Trace the book balance to the balance per the general ledger control account and to the working lead schedule or trial balance.

b. Compare the bank balance to the cut-off bank statement and to the bank confirmation.

c. Test the clerical accuracy of the reconciliation.

d. Review and explain unusual reconciling items and trace to appropriate subsequent disposition.

e. Trace deposits in transit to the cut-off bank statement(s) and ascertain whether the time lag is reasonable.

f. Inspect selected paid checks returned with the cut-off bank statement. Examine first cancellation date on the paid checks to identify any checks that were not recorded in the period under audit. Trace checks drawn prior to the end of the period under audit to the list of outstanding checks and to the cash disbursements journal as to date, payee and amount.

g. List and investigate any unusual checks including checks drawn to "bearer" or "cash."

h. List and investigate any outstanding checks of $. . . . or over which did not clear the banks within a reasonable period to ascertain that the disbursements are proper.

5. Obtain or prepare an analysis of cash in savings banks and cash invested in certificates of deposit including identity of the individual banks and accounts or certificates, interest rates, maturities for certificates of deposit, opening and closing balances, activity during the year, and related interest income accrued and collected; perform the following:

   a. Trace book balances and related income to the general ledger control account.

   b. Test the footings and cross footings.

   c. Obtain confirmations from the bank of balances at the close of the year (or period), related interest rates and methods of computation, and amounts.

   d. Examine passbooks and certificates of deposit, comparing them to bank confirmations; be alert for unrecorded passbook transactions or substituted certificates.

   e. Recompute (all or on a test basis) amounts of interest earned and trace amounts to the related income accounts.

6. Prepare a bank transfer schedule providing column headings for the following:

   - Name of disbursing bank
   - Check number or other reference

- Amount
- Date disbursed per books
- Date disbursed per bank
- Name of receiving bank
- Date deposited per books
- Date deposited per bank

Perform the following:

a. Review the cash receipts and disbursements journals, bank statements and related paid checks (including the cut-off bank statements) for the last . . . days before and first . . . . days after the closing date of the year (period) and list all bank transfers (or each transfer of $. . . or over) on the transfer schedule.

b. Review the schedule to determine that the deposit and disbursement side of each transfer is recorded in the proper period and that any time lag between book and bank entries appears reasonable. Trace incompleted transfers to the schedule of outstanding checks and/or deposits in transit.

7. If cut-off statements and related paid checks are not independently received by the auditor (or firm of auditors) directly from the bank, obtain the bank statements and related paid checks for the month following the balance sheet date and perform the following:

a. Inspect bank statements for erasures and prove arithmetic accuracy of the statements (opening balance plus total deposits and other credits, less the closing balance equals total disbursements and other charges).

b. Examine paid date of each check and debit memo to ascertain it was paid by the bank during the period covered by the bank statements.

c. Foot the paid checks and debit memos to ascertain that the total agrees with total charges per the bank statements.

d. Request banks to confirm the balance at the end of the statement period.

8. On receiving the banks' responses to standard bank confirmation requests:

a. Ascertain that all of the inquiries have been answered. If any inquiries have not been answered, telephone or correspond with the bank to obtain the missing information (in writing).

b. Trace the bank balances to the copies of applicable bank reconciliations included in the working papers; and accumulate the other responses for use in work on liabilities, commitments and contingencies.

9. Return the cut-off bank statements with related paid checks and other bank memoranda to the client and obtain a receipt.

.120 Cash Funds and Petty Cash

1. Identify all funds, including locations, custodians, amounts, and purpose, and decide:
   a. Which funds are to be counted and, if so, whether to count them simultaneously and whether simultaneous control and inspection of other assets, such as negotiable securities, is also necessary.
   b. Timing of counts to be at a preliminary date, the balance sheet date or subsequent to the balance sheet date.
2. Count all undeposited cash, petty cash, unclaimed wages, stamps, etc., in the presence of the custodian. (A client's representative should be present at all times during the count) and:
   a. List currency and coins counted by denomination.
   b. List other items such as stamps, checks, and vouchers; examine vouchers as to date, amount, payee, authorization, signature, account charged, and documentation. Identify large or unusual amounts for possible follow-up.
   c. Trace the fund balance per the count to the balance per the general ledger.
   d. List all unusual items such as postdated checks or vouchers prepared in pencil for discussion with a responsible member of the client's staff.
   e. If petty cash reimbursement checks are included in the fund, trace the amounts to cash book entries dated prior to the count.
   f. Have the custodian sign a receipt at the conclusion of the count.
3. Consider whether to confirm funds at branch offices and other locations which are not scheduled for a physical count.

Investments

.130 Illustrative Audit Objectives

To determine that:

- The entity owns the investments as at the balance sheet date and has physical evidence of ownership (securities, receipts from responsible custodians, etc.).

- The market or other fair value of the investments has been determined as objectively as practicable.
- Related income from the investments is properly recorded and received.
- Restrictions, pledges or liens on any of the investments and related liabilities are identified and adequately disclosed in the financial statements.
- The financial statement presentation and disclosure of investments and related income (classification, amounts such as cost, market, share of equity) is in conformity with generally accepted accounting principles consistently applied.

Some Matters to Consider

1. Results of the study and evaluation of internal accounting control of investments and related income.
2. Plans for physical inspection, confirmation procedures, or a combination of both, including whether this should be done on a surprise basis, as of the balance sheet date, or both.
3. Need for control of investments and simultaneous control of such related items as cash funds and detail subsidiary records of investments when performing the inspections and confirmation selections and mailings.
4. Competent independent sources for market valuations.
5. Competent independent sources for substantiating declaration and remittance of investment income.

.140 Illustrative Substantive Test Procedures

1. Obtain or prepare detailed analyses of investments showing:
   a. Classification between current and non-current portfolios and investments accounted for on the equity method.
   b. Description of the security, including any interest rate and maturity of debt, the dividend rate on cumulative preference shares, etc.
   c. Number of shares, par value, or face amounts held at the end of the preceding period, and the balance at cost and at market or equity if applicable, together with any unamortized premium or discount on bonds.
   d. Additions including date, number of shares, par values or face amounts, and cost.
   e. Sales and dispositions including date, number of shares, par value or face amounts, cost, proceeds and realized gain or loss.
   f. Number of shares, par values, or face amounts held at the end of the period, and the balance at cost and at market or

equity if applicable, together with any unamortized premium or discount on bonds.

g. Related valuation allowances at the beginning and end of the period and changes therein.

h. Investment income (dividends, interest, etc.) for individual investments—accrued at the end of the previous period, earned during the current period, collected during the period and accrued at the end of the current period.

2. Foot and crossfoot the analyses.

3. Trace ending totals to the general ledger and financial statement assembly sheets; trace opening balances to the prior period audit working papers.

4. Inspect securities on hand in the presence of the custodian (including treasury stock and securities held as collateral) at the balance sheet date or at a date shortly before or after, and examine supporting evidence (for example, bank and broker advices) for transactions between the inspection date and balance sheet date.

   a. Ascertain that certificates issued in nominee names are owned by the client.

   b. Note certificate or serial numbers if useful.

   c. If the investment is in the debt or equity of a nonpublic entity, consider obtaining confirmation from the issuer or trustee.

   d. Obtain a signed receipt.

5. Obtain positive confirmation as of the balance sheet date for investments held by independent custodians; consider whether inspection of investments held by custodians is necessary.

6. Examine contractual terms of debt securities and preferred stocks.

7. Determine that sales and purchases were properly approved; trace transactions to minutes of the Board of Directors or Finance Committee meetings.

8. Examine bank or broker's advices and custodian's reports in support of purchases and sales.

9. Determine that gain or loss on disposition of a security has been computed properly.

10. Trace payments for purchases to cancelled checks and proceeds from sales to entries in cash book.

11. By reference to published sources, by computation, and by examination of the cash receipts journal, determine that income from securities has been properly accrued or collected.

12. Determine that the amortization of premium and discount on bonds has been properly computed.
13. Determine that market value for both the current and non-current portfolios has been properly computed. Trace quoted market prices to competent published sources; obtain appraised values of infrequently traded securities.
14. For investments in nonpublic entities and investments carried on the equity method, compare carrying value to information in the most recently available audited financial statements. If necessary, use financial reports and statements issued later than the most recently available audited financial statements.
15. Compute the unrealized gain or loss on both the current and non-current portfolios for marketable equity securities.
16. Determine that the unrealized gain or loss on the current portfolio has been properly classified in the income statement and that the unrealized gain or loss on the non-current portfolio has been properly classified in the equity section of the balance sheet.
17. Determine that all transfers from the current to the non-current portfolios have been properly recorded in accordance with management's authorization and note pertinent information for the client representation letter.
18. Determine that any permanent impairment in value has been properly recognized and accounted for.

Trade Accounts and Notes Receivable

.150 Illustrative Audit Objectives

To determine that:

- The receivables exist, are authentic obligations owed to the entity, contain no significant amounts that should be written off, and that allowances for doubtful accounts are adequate and not excessive.
- Proper disclosure is made of any pledged, discounted or assigned receivables.
- Interest on accounts and notes receivable has been properly recorded.
- The presentation and disclosure of receivables is in conformity with generally accepted accounting principles consistently applied.

.160 Illustrative Substantive Test Procedures

1. Based on the study and evaluation of internal accounting control, decide on the following:
   a. Extent of confirmation procedures.

b. Form of confirmation (positive, negative or a combination of both).

c. Timing of confirmation procedures (as of the balance sheet date or some other date).

d. Anticipated scope of alternative procedures.

e. Approach for reviewing and evaluating adequacy of allowances.

2. Review activity in the general ledger control accounts for trade accounts receivable for the period under examination and:
   a. Note and investigate any significant entries which appear unusual in amount or source.
   b. Compare the opening balance for the period with the final closing balances per the working papers and report for the preceding period.

3. Analyze the relationship of receivables and sales (day's sales in accounts receivable) and compare with relationships for the preceding period(s).

4. Obtain or prepare an aged trial balance of trade receivables as of the date selected for confirmation procedures [11] and:
   a. Crossfoot the totals and refoot the total column and (selected or all) analysis columns.
   b. Trace total to the general ledger control account and, if as of the balance sheet date, to the lead schedule or working trial balance.
   c. On a test basis, trace entries for individual customers on the aging analysis (totals and aging detail) to the individual accounts in the accounts receivable subsidiary ledger and select individual accounts from the subsidiary ledger and trace totals and aging detail to the aged trial balance. Test footings of individual customer accounts in the subsidiary ledger.

5. Select individual customer accounts for confirmation procedures from the aged trial balance (or trial balance) and arrange for the preparation of confirmation requests to be mailed under the auditor's control and tested as follows:
   a. Trace individual confirmation requests as to balances and addresses to the subsidiary accounts receivable records. Send confirmations (using envelopes with the auditor's return address) and prepare confirmation statistics.

---

[11] In some situations, it may not be practicable to obtain an aged trial balance until after the mailing of confirmation requests, especially when confirmation procedures are coordinated with the client's regular billing cycle. In such instances, obtain a trial balance (which may be an annotated tape) of trade receivables as of the confirmation date, test arithmetical accuracy of the footings, and perform steps 4b and 4c above.

b. If client requests that any accounts be excluded from the confirmation process, obtain explanations; consider reviewing such records as correspondence files to substantiate the explanation and perform appropriate alternative procedures with respect to the amounts.

c. Trace confirmation replies to the trial balance and investigate replies with differences.

NOTE: The auditor may prepare a control of exceptions such as copies of replies or a list and arrange for the client's staff to investigate the differences and accumulate supporting documentation for the auditor's review.

d. Obtain new addresses for all confirmations returned by the post office and remail.

e. Send second requests for all unanswered positive confirmation requests. Consider sending third requests by registered or certified mail, and performing alternative auditing procedures.

f. Perform alternative auditing procedures for unanswered positive confirmation requests.

g. Summarize the results of the confirmation procedures.

h. Subsequent to the confirmation date, consider reviewing the customers' ledger and remittance advices for cash receipts.

6. For positive confirmation requests to which no reply was received, accounts which declined to provide confirmation information and accounts which the client requested not be confirmed:

   a. Test items subsequently paid to remittance advices which identify the specific invoices paid.

   b. Examine customer's purchase orders, related invoices and shipping documents for amounts that are not supported by remittance advices which identify the specific invoices paid.

   c. Establish the existence of the customer by reference to such sources as Dun and Bradstreet Reference Book.

7. If accounts receivable were confirmed as of a date other than the balance sheet date, obtain an analysis of transactions between the confirmation and balance sheet dates, trace amounts to books of original entry, and review the analysis and books for significant unusual entries.

8. Obtain or prepare an analysis of trade notes receivable including the following information:

   - Maker
   - Date made/date due
   - Original terms of repayment
   - Collateral, if any

- Interest rate
- Balance at the end of last period
- Principal—additions, payments
- Balance at the end of current period
- Interest income—at the end of the preceding period, earned during the current period, received during the current period, and accrued at the end of the current period.

a. Foot schedule and trace totals to applicable general ledger accounts.

b. Physically inspect all notes in possession of the client.

c. Request positive confirmations of the terms and balances of notes with makers (as of the balance sheet date or other date). Investigate any differences.

d. Confirm notes out for collection with collection agents.

e. Inspect collateral for notes, if any, making sure that items were not included in corresponding asset accounts of the company.

f. Recompute interest income, accrued interest and unearned discount; trace interest collections, if any, to the cash receipts journal. Ascertain that computations of interest and recognition of interest income is in conformity with APB Opinion No. 21 [AC section I69].

9. Ascertain whether any accounts or notes have been assigned, pledged or discounted by reference to minutes, review of agreements, confirmation with banks, etc.

10. Ascertain whether any accounts or notes receivable are owed by employees or related parties such as officers, directors, shareholders and affiliates, and:

    a. Obtain an understanding of the business purpose for the transactions which resulted in the balances.

    b. Ascertain that transactions were properly authorized.

    c. Obtain positive confirmations of the balances (as of the balance sheet date or some other date) except for intercompany accounts with affiliated companies which the firm is concurrently examining.

    d. Determine if any notes repaid prior to the balance sheet date have since been renewed.

11. Obtain or prepare an analysis of the allowance for doubtful accounts for the period, and:

    a. Review accounts written off during the period and determine that significant write-offs have been properly authorized. Examine supporting documentation, including correspondence with the customer. (Such correspondence may indicate a broader problem.)

b. Review adequacy of the allowance and related provision by:
   (1) Review of the aged trial balance as of the balance sheet date with the client's credit manager or other responsible individual to identify accounts of a doubtful nature and allowances required; review correspondence files and other relevant data in support of client's representations. Items reviewed should include past due amounts and significant amounts whether or not past due.
   (2) Examine credit reports for delinquent and large accounts.
   (3) Review confirmation exceptions for indication of amounts in dispute.
   (4) Consider whether accounts receivable that have been connected to notes receivable pose any unusual credit risk.
   (5) Analyze and review trends for the following relationships:
      (a) Accounts receivable to credit sales.
      (b) Allowance for doubtful accounts to accounts receivable (in total and in relation to past due categories per aging analysis).
      (c) Sales to returns and allowances.
      (d) Expense provisions for doubtful accounts to net credit sales.
      (e) Expense provisions for doubtful accounts to write-offs.
      (f) Moving average relationship of write-offs to trade receivables.

c. Identify differences, if any, between the book and tax basis for the allowance for doubtful accounts and related expense provision; summarize information required for determining income taxes currently payable and deferred.

d. Review revenue, receivable and cash receipts transactions after the balance sheet date including discounts taken, credits allowed and write-offs for unusual transactions (especially concerning past due balances and large accounts).

Inventories

.170 Illustrative Audit Objectives

To determine that:

- The inventory exists and is the client's property.
- The client has taken reasonable care in determining the physical quantities and identifying the condition (normal, slow moving, obsolete) of its inventory.
- The inventories are summarized and priced with clerical accuracy, and the records have been adjusted to the physical inventory.
- Inventory classifications and carrying amounts are determined and presented in the financial statements in conformity with generally accepted accounting principles consistently applied (for example, assumptions about the cost flow such as FIFO and LIFO, and lower of cost or market considerations).
- Any encumbrances such as pledges or liens are identified and adequately disclosed in the financial statements.

Some Matters to Consider

1. Results of the study and evaluation of internal accounting control for inventories, production costs and cost of sales. (A particularly significant issue is whether accounting controls over inventory transactions and balances are of sufficient strength to allow performing the physical count sooner than the balance sheet date.)
2. Timely identification of the locations of the physical inventories and their relative materiality by location.
3. Timely review of the client's plans and instructions for taking the physical inventory and accumulating, pricing and summarizing the results. (For example, will prenumbered tags be used and accounted for? Will counts be independently checked? Who is responsible for summarizing the physical inventory?)
4. Whether involvement of specialists is required (see SAS No. 11; AU section 336).
5. Need for audit assistants based on timing of counts at various locations, materiality of the amounts involved, and degree of difficulty of the observation.
6. Whether any inventory is held by third parties such as public warehouses and consignees and, if so, whether to obtain positive confirmation or because of materiality observe its physical count (see SAS No. 1, section 331.14-.15 as amended by SAS No. 43, paragraph 3; AU section 331.14).
7. Information to be recorded during observation when noting test counts for subsequent tracing to summarization of the physical inventory.

8. Information to be recorded at time of the physical count for subsequent tracing to other records as a cut-off test.

Illustrative Substantive Test Procedures

.180 Before Observation of the Physical Inventory [12]

1. Tour the client's manufacturing or production facilities with a member of the client's organization familiar with production.
2. On a test basis, select transactions for additions and deletions of inventory from such sources as receiving reports, requisitions to place materials into production, and shipping advices. Note the reference or control number, date, description, quantity and dollar amount for each transaction selected. Trace the transactions to the perpetual inventory record and the cost accounting records, if any, used to determine unit or job costs. Perform similar tests selecting the transactions from the perpetual inventory records and/or cost accounting records and trace the transactions to receiving reports, requisitions and shipping advices.

NOTE: This testing may be coordinated with compliance tests for purchases, payables and disbursements, and for revenues, receivables and receipts.

3. Obtain an analysis of overhead costs charged to inventories and over- or under-absorbed overhead. Review the amounts included in the overhead pool for propriety and perform the following:
   a. Determine that overhead costs are being charged to inventory in accordance with an appropriate policy (for example, as a percent of direct labor).
   b. Identify disposition of variances, if any, between actual overhead costs incurred and overhead costs applied to production and inventory. Determine that variances are reasonable. Determine that no excessive costs for idle plant are being charged to inventory.
4. If a job order cost system is used, obtain the job order ledger (or tabulation), select a period(s) and perform the following:
   a. Trace total costs incurred to the voucher register (or cash disbursements journal), the payroll distribution, and support for overhead applied.
   b. Test the footings of the job order ledger by refooting the detail for selected subtotals and refooting the subtotals.

[12] Some auditing procedures may serve to accomplish the purposes of both compliance and substantive tests. Certain steps that are listed here as illustrative substantive tests are also listed among illustrative compliance tests for inventory. They are listed here because they provide evidence with respect to the client's accounting for cost of sales and cost of inventory. They are listed as compliance tests because they may serve to clarify and confirm the auditor's understanding of internal accounting control of inventory and cost of sales.

c. Select .... job orders for jobs in process and completed jobs and perform the following.

(1) Examine authorization for the job order.

(2) Trace materials used on a test basis at various times since inception of the job order to such supporting details as requisitions, purchase orders, receiving reports and processed invoices. (Consider coordination with compliance tests for purchases.)

(3) Trace direct labor costs to account distributions of the payroll registers and on a test basis to individual time reports or time cards. (Consider coordination with compliance tests for payroll.)

(4) Trace application of overhead costs to analyses used to accumulate overhead costs; test computations and review for reasonableness.

(5) Identify the status of the job (work in process, finished goods, or goods shipped) and trace through necessary summarization to the applicable general ledger account. Obtain explanation for any unreasonable time lag between completion and shipping dates for job orders performed for specific customers.

5. For process cost systems, obtain the cost of production reports for each department within the production process for a selected period(s) and:

a. Trace quantities and dollar amounts for units received for selected departments to the quantities and dollar amounts transferred out per the preceding department in the sequence of production.

b. For each selected department, review the computations of total and unit costs for production transferred to the next department; on a test basis recompute unit costs; and ascertain that costs for units lost in process are properly reallocated to surviving units.

c. Trace materials costs charged to the selected departments to appropriate journals and on a test basis to individual requisitions.

d. Trace labor costs incurred to account distribution analyses of the payroll registers.

e. Review the allocation of overhead.

.190 Observation of the Physical Inventory

1. Include the following in advance planning:

a. Review and evaluate the adequacy of the client's instructions for making the physical count.

b. Consider attending the client's preparatory meetings for the physical count.

c. If a specialist is to be involved, review and evaluate the professional qualifications and reputation of the specialist; obtain an understanding of the nature of the work to be performed by the specialist.

d. Determine the nature and timing of confirmation requests needed from custodians of inventory such as public warehouses and consignees.

e. Review adequacy of audit staffing arrangements.

2. Tour the premises on arrival and ascertain whether the inventory arrangement is conducive to a satisfactory count; if the arrangement appears obviously unsatisfactory, recommend rearrangement.

3. Ascertain that items on hand which are not property of the client are clearly identified, segregated and excluded from the count. Note such references as descriptions, quantities, serial numbers, and shipping advice numbers so that in subsequent tests of inventory summarization the auditor may determine whether the items were excluded from the physical count.

4. Visit the shipping and receiving departments and record the control numbers for the last shipping advice and receiving report prepared prior to the physical count for subsequent tracing to accounting department records. Consider recording a few additional shipping advice and receiving report numbers for subsequent tracing.

5. Ascertain that receiving and shipping departments are informed that receipts after and shipments before the inventory cutoff are to be excluded from the count. Ascertain that receiving reports for items not included in the count are prominently marked "after inventory."

6. Observe and note client's provision for segregation and/or clear identification of slow moving, obsolete and/or damaged items; also be alert for such items among regular stock and, if present, bring to the client's attention and note for subsequent consideration.

7. Inspect representative items of inventory and ascertain the source of its identification, description, status (work-in-process, finished goods, etc.), basis for count or measure (volume, weight, item tally, etc.). Inquire of both production personnel and personnel involved in the count about such items.

8. Observe and ascertain that the client's inventory instructions and procedures are being followed.

9. Ascertain that prenumbered inventory tickets or count sheets are properly controlled including:
   a. Accounting for all tickets or sheets issued to count personnel.
   b. Accounting for return of all tickets or sheets issued including those unused and spoiled as well as those used, at completion of the inventory.
   c. Note series of ticket or count sheet numbers used and those unused or spoiled for subsequent tracing in tests of summarization.
10. Observe the count process and make test counts ascertaining that the identifications, descriptions and quantities are being properly noted on the inventory tickets or count sheets. If inventory count sheets are used, select some items from the floor, make test counts and trace them to the sheets; select some entries from the sheets (include some items of greater dollar value) and trace them to items on the floor.
11. Prepare a worksheet listing some items (include some items of greater dollar value) test counted, for subsequent tracing into the client's inventory summarization. Include on the worksheet for each item the inventory ticket or count sheet number, location, description, quantity per client, quantity per your test count, and other particulars essential for subsequent tracing to the inventory summarization. Bring test count differences to the client's attention during the count so they may be resolved in a timely manner. If test count differences are not isolated, it may be necessary to request a recount of a particular area or department.
12. Observe that all items of inventory are clearly ticketed or marked when counted to avoid omissions and/or duplications of counts.
13. Observe whether any items are not being counted and obtain an adequate explanation for their omission.
14. Note any movement of inventory during the count; obtain explanation for the movement and record details from the applicable authorizing documents for consideration in review of the cutoff.
15. Prepare a memorandum on the observation of the physical inventory including:
   a. Comment on the physical inventory arrangements.
   b. Implementation of the client's inventory instructions.

.200 Summarization—Physical Quantities

1. Relate and trace information, noted during observations of the physical, about control numbers for count tickets or count sheets used, to the client's summarization of the physical for reasonable assurance that only tickets or sheets used for the physical are included in the summarization of quantities. (Summarization of

quantities may consist of the quantities per the final priced inventory or an intermediate tabulation of count tickets. In some instances the original count sheets may provide for entry of prices, extensions and summarization of dollar amounts.)

2. Trace test counts noted during the physical to the client's summarization of quantities.

3. Trace quantities confirmed by third parties to the summarization of quantities.

4. Depending on the extent of the work in step 2 above and on the internal accounting controls over inventory summarization, select quantities for particular items from the summarization and trace them to the count tickets or count sheets; select quantities for particular items from the count tickets or sheets and trace them to the summarization of quantities.

5. If the client uses perpetual inventory records and the perpetuals are to be used to determine the year end balance, trace items on a test basis to and from the physical inventory summaries; ascertain that the perpetuals were adjusted to the physical.

6. Trace notes made at the observation for slow moving, obsolete, and/or damaged items to the client's summarization of quantities and determine if they are clearly identified as such.

7. Test the cut-off information noted at the observation of the physical inventory as follows:

   a. Select the last few shipping advices used before the count to the sales register; determine that the shipments were recorded as sales and charges to cost of sales as of the dates shipped.

   b. Select a few shipping advices used after the count to the sales register and determine that the shipments were recorded as sales in the period after the date of the inventory.

   c. Select the last few receiving reports used before the count and determine that the related liability was recorded prior to or as of the count date.

8. If the client uses a process cost system, trace selected quantities per the physical inventory to the departmental cost of production reports and determine that quantities have been adjusted to the physical inventory as of the date of the physical count.

.210 Prices and Summarization—Monetary Units

1. Ascertain the methods followed concerning the flow of costs (FIFO, LIFO, moving average, etc.) and compare with working papers of the preceding year to ascertain whether the methods have been consistently applied.

2. For purchased materials and supplies included in inventory, trace unit costs to prices per recent vendors' invoices and/or to prior year inventory if LIFO is used. Note dates per vendors' invoices and be alert for slow moving items. Ordinarily, sufficient invoices should be inspected to cover the quantities on hand.

3. Trace unit costs per the physical inventory for work-in-process and finished goods, on a test basis, to the cost accounting records and perform the following:

   a. Obtain and review trial balances or tabulations of detailed components of production costs incurred for the year (period) and compare with the equivalent for the preceding year (period).

      (1) Obtain and note explanations for apparent inconsistencies in classification and significant fluctuations in amounts.

      (2) Ascertain that the cost classifications accumulated as production costs and absorbed in inventory are in conformity with generally accepted accounting principles.

   b. Review computations of unit costs and costs credited against inventory and charged to cost of sales; update findings from tests made prior to observation of the physical count, and consider the need for further detail tests.

   c. Review activity in the general ledger control accounts for raw materials, supplies, work-in-process and finished goods inventories; investigate any significant unusual entries or fluctuations.

   d. Review labor and overhead allocations to inventory and cost of sales; compare to actual labor and overhead costs incurred and ascertain that variances appear reasonable in amount and have been properly accounted for.

4. Perform following tests for clerical accuracy of the summarized physical inventory:

   a. Recompute extensions of quantities and unit costs on a test basis.

   b. Refoot accumulation of dollar subtotals on a test basis.

   c. Refoot dollar subtotals to test total dollar amounts per the physical inventory for the major classifications (i. e., raw materials, work-in-process, finished goods, supplies, etc.).

   d. Review the inventory listings for significant quantities and amounts that appear unusual.

   e. Ascertain that the general ledger control accounts have been adjusted to include the findings of the physical inventory. (This may consist of tracing the totals per the physical to an analysis which supports journal entries, or an involved trail of tracing through the cost accounting records to the general ledger control accounts.)

5. Review the pricing, extensions and summarization of the physical inventory for items identified as slow moving, damaged, and/or obsolete to ascertain that the items are carried at dollar amounts in conformity with the lower of cost or market principle:
   a. Examine documentation for the proceeds of recent scrap or salvage sales.
   b. Review client's criteria for considering items as slow moving or obsolete and evaluate whether criteria appear reasonable and realistic. (For example, are a certain number of months used to determine when an item becomes slow moving? Are predetermined quantities used to determine that quantities on hand are not in excess of reasonable economic need?)

.220 Lower of Cost or Market Considerations

1. On a test basis select items of raw materials and supplies inventory including some items with relatively significant carrying amounts (because of high unit costs or large quantities on hand) and:
   a. Compare the inventory unit prices with prices per recent vendors' invoices, vendor quotations, vendor price lists, and published market quotations.
   b. Review purchase records and production requisitions for indications of whether items may be on hand in excess quantities, slow moving, or obsolete.
2. On a test basis select items or classifications of finished goods and work-in-process inventories including some items with relatively significant carrying amounts (because of high unit costs or large quantities on hand) and:
   a. Review and note current selling prices and quantities sold for the items or classifications by reference to recent sales invoices, customer orders, and published market quotations, and supplementary discussion with the client's marketing and sales executives.
   b. Compare inventory carrying amounts and recent selling prices for the selected finished goods items or classifications noted in terms of current relationships of sales to gross profit, selling and shipping expenses; ascertain that the carrying amounts of the selected finished goods items are not in excess of net realizable value.
   c. For the selected work-in-process items, ascertain their stage of completion and estimated cost to complete by reference to

the cost accounting records, production reports and inquiry of the client's production supervisors. Apply the estimated costs to complete to the selected work-in-process items and apply steps a. and b. above.

d. Compare quantities on hand for the selected items with quantities noted per recent sales invoices and customer orders; be alert that quantities on hand are not in excess of the client's requirements.

3. Compute the following ratios, compare them with similar ratios for prior years, and obtain explanations for unusual fluctuations:
   a. Inventory turnover (cost of sales ÷ inventory)
   b. Gross profit percentage (net sales ÷ gross profit)
4. Compare inventory balances as at the end of the year (period) with balances as at the beginning of the year (period) and obtain explanations for significant and unusual fluctuations.
5. Relate inventory balances as at the end of the year (period) to anticipated future sales.

.230 Other

1. If the physical count was not taken as of the balance sheet date, analyze and reconcile the balance per the physically counted inventory to inventory per the balance sheet:
   a. Review and analyze the general ledger control accounts for inventory from the date counted to the balance sheet date; trace additions to such sources as the purchase journal or voucher register, the cost accounting records, and charges to cost of sales.
   b. Compare the current activity between the count date and balance sheet date to activity of the equivalent period in the preceding year. Investigate unusual fluctuations.
2. Review the sales journal and investigate the authenticity of any unusually large sales made in the period prior to the inventory count date.
3. Determine whether any inventory is pledged as collateral or subject to any liens; coordinate with work on debt payable.
4. Inspect the open purchase order file at the balance sheet date for significant commitments that should be considered for disclosure.

Property and Equipment, and Related Depreciation

.240 Illustrative Audit Objectives

To determine that:

- The property exists and is owned by the entity.

- Additions to property are authentic, recorded at cost and properly distinguished from maintenance and repairs expense.
- Retirements of property together with the proceeds from salvage and the related costs to remove are properly recognized.
- A proper amount of depreciation expense is allocated to the period based on the asset cost, estimated life and salvage, and use of acceptable methods consistently applied, and adequately presented in the financial statements.
- The net carrying value as presented in the financial statements is expected to be recoverable through the ordinary course of business.
- Any encumbrances and liens are identified and adequately disclosed in the financial statements.
- Significant amounts of idle property and equipment are properly stated, classified and described.
- Significant amounts of fully depreciated assets are considered for disclosure.

.250 Illustrative Substantive Test Procedures

1. Obtain (or update) an understanding of the client's policies concerning capitalization of assets and related depreciation methods and depreciable lives.
2. Consider a tour of the client's facilities for new staff assigned to the engagement, or for the entire audit team if significant changes have occurred.
3. Consider the extent to which it may be practicable to perform substantive tests prior to the balance sheet date.
4. Obtain or prepare the following schedules:
   a. Summary schedule of property, plant and equipment and related depreciation (by major asset classification) including the following:
      - Beginning and ending asset balances at cost.
      - Asset additions at cost.
      - Asset retirements and dispositions.
      - Other changes.
      - Depreciation method and life.
      - Beginning and ending balances of the allowances for depreciation.
      - Additions to the allowances for depreciation accompanied by an analysis of amounts expensed, absorbed in inventory, and capitalized.
      - Reductions of the allowances for depreciation for retirements and dispositions.

b. Additions at cost showing the description, date acquired, transaction reference (purchase order number, check number, work order number, etc.), estimated useful life, and cost for all additions of $...... or over. (Also see step 14 below).

c. Retirements and dispositions showing the description, date of acquisition, date of retirement or disposition, cost, accumulated depreciation, net carrying value, proceeds of disposition and gain or loss on disposition. (Also see step 14 below).

d. Analysis of maintenance expense showing each transaction of $...... or greater (or all transactions) for the year or period.

5. Trace opening balances per the summary schedules to closing balances per the prior year's working papers.

6. Trace amounts per the summary schedule to the general ledger, the detailed asset records, and to the schedules of additions, and retirements and dispositions; recompute the footings and cross footings of the schedules.

7. Perform the following tests of selected additions:

   a. Determine the addition has been authorized by reference to such sources as minutes of the meetings of the board of directors or finance committee and/or capital asset budgets reviewed by the board of directors or finance committee or by evidence of approval by appropriate, responsible personnel, in accordance with prescribed policies.

   b. Examine such supporting documents as purchase contracts, paid checks, vendors' invoices, purchase orders, receiving reports, work orders, engineers' reports, etc.

   c. Trace transactions to appropriate entries in the detailed property records.

   d. For construction in progress examine supporting work orders, documentation in support of costs incurred such as contractors' invoices, reports and correspondence from engineers and/or architects regarding completion, and trace transfers from the construction in progress accounts to other property accounts.

   e. Physically inspect selected (or all) major additions.

   f. Inquire about related dispositions.

   g. Determine whether additions conform with the company's capitalization policy.

   h. Determine that installment purchases, if any, are properly recorded.

   i. By reference to purchase contracts and contractors' billings identify related liabilities to be recorded in connection with debt or other payables.

8. Perform the following tests of dispositions:
   a. Determine disposition has been properly authorized.
   b. Examine such supporting documents as bills of sale, contracts, delivery memoranda, etc.
   c. Trace retirements to the detailed property records.
   d. Determine that deductions from the asset accounts and related accumulated depreciation are correct.
   e. Determine that gain or loss on disposition has been correctly classified and recorded.
9. For fully depreciated assets, determine whether the assets are still used and not retired from service.
10. Determine that assets retired from service, if material, have been removed from the property, plant and equipment accounts and related accumulated depreciation accounts, and are carried at amounts which are not in excess of realizable value.
11. Review lease agreements for new leases and determine whether leased assets which should be capitalized have been capitalized, and that related depreciation is being determined using an appropriate method and life.
12. Review provisions for depreciation and amortization and:
   a. Determine whether the methods and depreciable lives used in the current year are consistent with the preceding year and are reasonable.
   b. Test computations of depreciation and amortization.
   c. Determine that amounts of depreciation capitalized in construction in progress are reasonable and appropriate.
   d. Ascertain that obsolescence, if any, is being properly recognized by adjustment of depreciable lives.
   e. Trace additions to the depreciation allowances to the applicable general ledger expense accounts.
13. Review maintenance expense and examine supporting documentation for selected transactions to determine that the amounts have been properly classified.
14. Obtain or prepare and test an analysis of qualified additions and early dispositions of qualified property in a format which provides for determination of the investment tax credit. (This may be incorporated into schedules for additions and dispositions).
15. Review the following relationships for the current and preceding year and obtain explanations for significant fluctuations:
   a. Dispositions of property and equipment to replacements.
   b. Accumulated depreciation to plant and equipment balances at cost.

c. Current year depreciation and amortization to plant and equipment balances at cost.

Prepaid Expenses, Deferred Charges, Intangibles and Other Assets

.260 Illustrative Audit Objectives

To determine that:

- The balances represent costs which are properly allocable to future periods in conformity with generally accepted accounting principles.
- Additions are adequately supported.
- Amortization is determined by a rational and systematic method consistently applied.
- Any permanent impairment of balances is recognized by write downs charged to operations.
- Balances and related expenses are properly described and classified in the financial statements.
- Whether there are uninsured risks that should be considered for disclosure (see FASB Statement No. 5, paragraph 103; AC section C59, footnote 5).

.270 Illustrative Substantive Test Procedures

1. Obtain or prepare an analysis for each significant classification of prepaid expenses, deferred charges, other assets or intangibles. The analysis should include adequate description of significant components and the following:
    - Balance at the beginning of the year (or period).
    - Additions at cost.
    - Deductions charged to expense, and to other accounts.
    - Balance at the end of the year (or period).
2. Foot analysis and trace totals to general ledger; trace opening balance to the audit working papers for the preceding year (or period).
3. Examine supporting documents for material charges during the year.
4. Review and recompute amortization; determine that the amortization period is reasonable.
5. Determine that the carrying amount of the item does not exceed amounts properly allocable to future periods.
6. Trace amounts amortized during the period to the related general ledger expense accounts.
7. Confirm significant deposits and assets held by others.

8. Obtain or prepare an analysis of prepaid insurance and insurance expenses (including life insurance premiums); perform the following additional tests:
   a. Examine all or selected policies noting identity of insurer, descriptions and amounts of coverage, premiums and period covered; compare particulars with the analysis.
   b. Ascertain by review of the policy and related billing advices for the insurance premiums whether the premiums are being financed and/or the policy or cash surrender value has been pledged; determine that related liabilities and finance costs have been properly recorded.
   c. Obtain confirmation of cash surrender values; consider confirmation of policies especially if premium financing is involved to determine that payments are current and coverage is still in force.
   d. Ascertain whether all significant insurable risks have been considered.
   e. Recompute amortization and trace amounts to the applicable expense accounts.
9. For property taxes, where significant, obtain or prepare an analysis which relates both prepayments and accruals as of the beginning and end of the period with tax expense. Examine tax billings and determine whether the timing of the period covered by the tax and the payment due dates result in a prepayment or an accrual as of the balance sheet date. Trace charges to expense to the proper expense account.
10. For intangible assets:
    a. Trace authorization for major transactions to minutes of board of directors meetings.
    b. Examine supporting documents.
    c. Ascertain whether amortization has been properly computed in conformity with generally accepted accounting principles, and trace charges to related expense accounts.
11. Determine that there has been no permanent impairment of value for prepaid expenses, deferred charges, intangible assets, etc.
12. Determine that balances are properly classified in the balance sheet (current v. non-current, etc.).

Accounts Payable

.280 Illustrative Audit Objectives

To determine that:

- Accounts payable represent authorized current obligations.
- Amounts included in accounts payable are properly classified.

- Accounts payable include all significant current obligations.
- Adequate disclosure has been made of any pledged assets.

Some Matters to Consider

1. Results of the study and evaluation of internal accounting control of purchases, accounts payable and disbursements.

   In particular, this may affect both the extent of substantive procedures and whether they are performed at the date of the physical inventory, at the balance sheet date, or both.

2. Results of the study and evaluation of internal accounting control of payroll regarding liability for withheld payroll taxes.

3. Whether to request positive confirmation from vendors and, if so, when and to what extent.

   NOTE: Some auditors send confirmations to major vendors to obtain independent outside evidence that all liabilities have been recorded. Other auditors believe that evidential matter can be obtained more efficiently through other procedures.

5. Potential efficiencies to be gained from coordination of accounts payable work with substantive tests of inventory when the physical is taken at the balance sheet date. (For example, tests of cut off, and using vouchers obtained from client's files in substantiating recent inventory prices as well as accounts payable work.)

.290 Illustrative Substantive Test Procedures

1. Obtain or prepare a schedule of accounts payable as of the balance sheet date.
   a. Foot schedule and trace totals to the general ledger.
   b. Trace selected individual accounts to accounts payable subsidiary ledger and vice versa.
   c. Discuss with client old or disputed payables.
   d. Investigate debit balances and, if significant, consider requesting positive confirmations and propose reclassification of the amounts.
   e. Ascertain by review of minutes and agreements and by inquiry whether any assets are pledged to collateralize payables.
   f. Identify inter-company accounts and:
      (1) Arrange to have balances traced to corresponding receivables in the affiliate's books if affiliate is being currently examined by the firm.
      (2) Obtain confirmation from the affiliate.
      (3) Investigate and reconcile differences.

2. Consider confirmation procedures such as the following:
   a. Obtain and review a list of major vendors, or identify major vendors by reviewing voucher registers or subsidiary accounts payable records.
   b. Request vendors to provide a statement of the account balance as of the date selected (ordinarily, the physical inventory date and/or balance sheet date).
   c. Investigate and reconcile differences.
3. Confirm balances due officers and employees; ascertain business purpose of the transactions and, if significant, trace to authorization in the minutes of the board of directors meetings.
4. Test selected unconfirmed balances by examination of vouchers, invoices, and receiving reports.
5. Perform a search for unrecorded liabilities,[13] including the following sources, and schedule findings to show effect of the potential adjustment on operations or financial position:
   a. Examine files of receiving reports unmatched with vendors' invoices, searching for significant items received on or before the balance sheet date. Use this information to test client's schedule of goods received but not billed. (If vendors' invoices are not available, refer to the purchase order for prices.)
   b. Inspect files of unprocessed invoices and vendors' statements for unrecorded liabilities.
   c. Review the cash disbursements journal for disbursements after the balance sheet date; obtain and examine supporting detail for each disbursement of $ —— and over and determine that accounts payable as at the balance sheet date were properly recorded.
   d. Review the voucher register for transactions recorded after the balance sheet date; obtain and examine supporting detail for each transaction of $—— and over to identify items that should have been recorded at the balance sheet date and were not.
   e. Inquire of responsible client staff about their knowledge of additional sources of unprocessed invoices, unrecorded commitments, or contingent liabilities.
7. Liabilities for payroll taxes withheld:
   a. Trace liabilities to payments made subsequent to the balance sheet date; examine the payroll tax deposit receipts.

[13] The search would cover entries recorded after the close of the year or period under examination to a date on or near the conclusion of fieldwork.

b. Compare liability to accrued payroll taxes for reasonableness.

c. Trace liabilities to summaries of the applicable payroll registers.

Accrued Liabilities Other Than Income Taxes

.300 Illustrative Audit Objectives

To determine that:

- Expense accounts include costs and expenses applicable to the period.
- All contingencies and estimated future expenses that should be accrued in the period have been accrued, classified and described in accordance with generally accepted accounting principles consistently applied.

Some Matters to Consider

1. Results of the study and evaluation of internal accounting control for purchases, payables and disbursements, and payroll.
2. Coordination of work with review and comparisons of costs and expenses incurred for the current year (period) with the preceding year (period) and with budgeted amounts.

.310 Illustrative Substantive Test Procedures

1. Obtain or prepare analysis of accrued liability accounts.
2. Examine documents or working papers supporting amounts accrued and:
   a. Determine the basis and method of accrual
   b. Recompute amounts provided
   c. Review accrual for reasonableness
3. Trace amounts accrued during the year to related expense accounts.
4. Compare accrual to subsequent payments, where possible, to determine reasonableness.
5. Determine if any other accruals are required as a result of the search for unrecorded liabilities.
6. Investigate and explain any large fluctuations in accruals between the current and the preceding period.
7. For vacation accruals:
   a. Examine union contracts and/or personnel manuals to determine vacation policies.
   b. Test the client's computation of accrued vacation pay. (In some cases this might be a detailed calculation; in other cases, it may be more in the nature of an overall estimate.)

8. For accrued payroll taxes:
   a. Compare accruals as of the balance sheet date to subsequent payments and determine that amounts were accrued in the proper period.
   b. Consider reconciling wages per the payroll tax returns to the payroll registers.

Income Taxes Accrued and Provided

.320 Illustrative Audit Objectives

To determine:

- That the provision for income taxes is reasonable.
- That the liability for accrued income taxes is adequate and not excessive in relation to amounts reasonably expected to be payable.
- That deferred income taxes represent the effect of timing differences.
- That income tax provisions, accruals and deferrals are properly described and classified in conformity with generally accepted accounting principles consistently applied.

Some Matters to Consider

Carefully planned schedules and analyses for the audit working papers may also aid in accumulating information for income tax return preparation.

.330 Illustrative Substantive Test Procedures

1. Obtain or prepare analyses of the various current and deferred income tax liabilities and receivables and related provisions showing:
   - Balances at the beginning of the year (period)
   - Amounts provided
   - Refunds received
   - Payments made, indicating date and nature
   - Balances at the end of the year (period)
2. Trace payments to cash books and general ledger; examine cancelled checks for evidence of timely payment.
3. Compare payments and refunds to copies of income tax returns.
4. Ascertain latest year that income tax returns have been examined and which periods, if any, are being contested. Examine recent Revenue Agent Reports; determine that adequate consideration has been given to items challenged in the past.
5. Determine that any assessments for tax deficiencies and related interest expenses have been properly recorded.
6. Schedule timing differences and permanent differences between income before taxes for financial reporting purposes and current

income tax purposes; review and recompute the current and deferred income tax provisions for the year (period).

7. Determine that tax liability at the balance sheet date is adequate and not excessive.
8. Reconcile the provision for income taxes and the tax liability.
9. Update carryforward analyses of the composition of all income tax liability accounts.
10. Update carryforward analyses of the composition of all deferred tax accounts.

Notes Payable, Long Term Debt and Debt Equivalents

.340 Illustrative Audit Objectives

To determine that:

- Notes payable, long term debt and debt equivalents are authorized, and properly classified and described in the financial statements.
- Liabilities are recorded in the proper period at the correct amounts.
- Related interest expense (including discount or premium) is accounted for in conformity with generally accepted accounting principles consistently applied.
- The financial statements include adequate disclosure of restrictive covenants of loan agreements, pledged assets, etc.

.350 Illustrative Substantive Test Procedures

1. Obtain or prepare an analysis of notes payable, long term debt and capitalized lease obligations showing the following:
   a. Description
      (1) Date of origin
      (2) Type of debt and maturity
      (3) Face amount
      (4) Interest rate
      (5) Timing and amount of payments
   b. Principal
      (1) Balance at the beginning of the year (period)
      (2) Additions
      (3) Payments
      (4) Balance at the end of the year (period)
   c. Related Interest
      (1) Accrued interest at the beginning of the year (period)
      (2) Unamortized discount or premium at the beginning of the year (period)

(3) Expense incurred during the year (period)
(4) Amount paid during the year (period)
(5) Accrued at the end of the year (period)
(6) Unamortized discount or premium at the end of the year (period)

2. Foot and crossfoot analysis, and trace totals to general ledger and subsidiary ledgers for notes payable, long term debt and capitalized lease obligations.

3. Trace authorization for all new debt (including such debt equivalents as capitalized leases) to the minutes of the board of directors meetings.

4. Examine supporting documentation for all debt (and debt equivalents) and related interest expense (for example, note and loan agreements, bond indentures, lease agreements, correspondence from legal counsel, etc.); obtain copies of debt agreements and highlight restrictive covenants. Note and investigate any apparent violations.

5. Examine lease agreements; identify those which should be capitalized and determine whether they were capitalized at effective rates of interest determined in conformity with generally accepted accounting principles. (Users may wish to insert here references to the current pronouncements on accounting for leases). Obtain information needed for disclosures of lease obligations.

6. Confirm outstanding balances, terms, conditions and compliance with covenants with the credit grantor or independent trustee.

7. Examine cancelled or paid notes and bonds. Consider confirming large notes paid or cancelled during the year (period).

8. Recompute interest expense and amortization of debt discount or premium.

9. Reconcile interest expense with debt outstanding during the year (period).

10. Review subsequent payment or renewal of substantial notes.

11. Account for all unissued bonds.

Stockholders' Equity

.360 Illustrative Audit Objectives

To determine that:

- All transactions and commitments (options, warrants, rights, etc.) are properly authorized and classified.
- All transactions and commitments are recorded at correct amounts in the proper period.

- All transactions and balances are presented in the financial statements in conformity with generally accepted accounting principles consistently applied and accompanied by adequate disclosures.

Illustrative Substantive Test Procedures

.370 Capital Stock and Additional Paid-In Capital

1. For each class of stock, identify the numer of authorized shares, par or stated value, privileges and restrictions.
2. Obtain or prepare an analysis of the activity in the accounts; trace opening balances to the balance sheet as of the close of the year (period) previously examined.
3. Examine minutes, bylaws and articles of incorporation for provisions relating to capital stock and support for all changes in the accounts including authorization per minutes of board of directors and stockholders meetings, and correspondence from legal counsel.
4. Account for all proceeds from stock issues (including stock issued under stock option and stock purchase plan):
   a. Recompute sales price and applicable proceeds.
   b. Determine that proceeds have been properly distributed between capital stock and additional paid-in capital.
5. If company keeps its own stock record books:
   a. Prepare a carryforward schedule showing certificate number, date and to whom issued, number of shares issued and date of examination.
   b. Reconcile schedule to general ledger.
   c. Determine that all issued certificates have been accounted for as outstanding or cancelled.
   d. Account for all unissued certificates.
   e. Examine supporting correspondence for stock transfers.
6. If the company does not keep its own stock record books:
   a. Obtain confirmation of shares outstanding from the registrar and transfer agent.
   b. Reconcile confirmation with general ledger accounts.
7. For stock options and stock option plans, trace authorization to the minutes of the board of directors meetings, review the plan and the option contracts. Obtain or prepare and test analyses of stock options which include the following information:
   - For option plans, the date of the plan, number and class of shares reserved for option, method for determining the option price, period during which options may be granted, and identity of persons to whom options may be granted.

- For options granted, identity of persons to whom granted, date of grant, number of shares under option, option price, option period, number of shares as to which options are exercisable, and the market price and value of shares under option as of the date of grant or measurement (first date on which are known both (1) number of shares individual is entitled to receive, and (2) the option or purchase price, if any).
- For options outstanding, number of shares subject to option at the beginning of the period, activity during the period (additional shares subjected to option, number of shares exercised under options, number of shares associated with options which expired during the period), and number of shares subject to option at the end of the year (period).

8. Identify all stock rights and warrants outstanding as of the balance sheet date including the number of shares involved, period during which exercisable and exercise price; determine that the rights and warrants were authorized.
9. Identify any stock subscriptions receivable, and:
   a. Determine if they were authorized.
   b. Obtain confirmation from subscribers.
   c. Ascertain that subscriptions receivable are classified as a reduction of stockholders' equity on the balance sheet.
10. Obtain or prepare an analysis of the treasury stock account and:
    a. Inspect the paid checks and other documentation in support of the treasury stock acquisitions.
    b. Examine the treasury stock certificates; ascertain that the certificates are in the company's name or endorsed to the company.
    c. Reconcile treasury stock to the general ledger.
11. Ascertain amount of dividends in arrears, if any, on cumulative preferred shares.

.380 Retained Earnings

1. Analyze activity during the period; trace the opening balance to the balance sheet as at the end of the year (period) previously examined; trace net income to financial statement assembly sheets, and trace unrealized loss on noncurrent investments to investment working papers.
2. Determine that dividends paid or declared have been authorized by the board of directors and:
   a. Examine paid checks and supporting documents for dividends paid (selected checks to shareholders or to a dividend disbursing agent).
   b. Recompute amounts of dividends paid and/or payable.

3. Investigate any prior period adjustments and determine if they were made in accordance with FASB Statement No. 16 [AC section A35.101—.103, A35.106 and A35.109—.111], *Prior Period Adjustments.*
4. Examine supporting documents and authorization for all other transactions in the account, considering conformity with GAAP.
5. Determine amount of restrictions, if any, on retained earnings at end of period which result from loans, other agreements, or state law.

Revenues and Other Income

.390 Illustrative Audit Objectives

To determine that:

- Revenue transactions represent consideration applicable to goods shipped and/or completed services rendered to customers (or clients) in the normal course of business during the year (period).
- Revenue transactions have resulted in collections or bona fide receivables.
- All revenues earned during the year (period) are recorded and included in the financial statements.
- Revenues are properly classified and described in the financial statements and accompanied by adequate disclosure.
- Other income has been properly recognized, classified and described in the statement of income.
- The income statement is prepared in conformity with generally accepted accounting principles consistently applied.

.400 Illustrative Substantive Test Procedures

1. Obtain or prepare a comparative analysis of sales for the current and preceding year (period) (and budgeted amounts) including gross sales, discounts granted, returns, credits allowed, and net sales. (Consider additional subclassifications such as sales by product line, division, seasons during the year or period, etc.).

   Obtain explanations for significant or unusual fluctuations from the preceding year (period) and from budgeted amounts.

   NOTE: Revenue and profit recognition on long term service contracts, installment sales, and long term construction contracts are specialized matters which are common to certain industries; see the applicable industry audit guides.
2. Ascertain whether the entity ships goods to be held on consignment by others, and if so:

a. Identify the control accounts, procedures, and entities to whom consignment shipments are made.

b. Examine consignment agreements.

c. Review subsidiary accounts for entities to whom consignment shipments are made; examine supporting detail and ascertain that shipments on consignment are properly recorded.

d. Review shipping advices and trace consignment shipments to the applicable subsidiary records and control accounts; ascertain that consignment shipments are correctly classified and recorded.

e. Investigate old or significant consignments to determine whether there are any unrecorded sales.

3. Identify amounts of sales to affiliates; obtain an understanding of their business purpose, and note for disclosure and/or tracing to consolidation eliminating entries. Identify amounts of sales to other related parties (see SAS No. 45; AU section 334).

4. For sales cut off as of the closing date for the year (period) and/or the date of the physical inventory:

   a. Select sales invoices for testing from the sales register for several days before and after the year end (or at the physical inventory date) and examine shipping records and determine that they were recorded in the proper period.

   b. Select credit memos issued after year end and examine underlying documentation (for example, record of receipt of returned goods) to determine period to which credit memo is applicable and whether it was recorded in the proper period.

   c. Inquire of the client if there are any unprocessed sales or customer credit memos. Inspect supporting documents to determine whether they should have been recorded prior to year end.

5. Ascertain that the following income accounts have been traced to the analysis working papers for examination of the related balance sheet accounts:

   a. Interest income (notes receivable, debt securities, capitalized leases, etc.)

   b. Dividend income and realized gains (marketable equity securities)

   c. Increase in investments accounted for on the equity method (investments)

   d. Gain on sale of property and equipment (property and equipment)

6. Obtain (or prepare) an analysis of rent and royalty income and examine supporting agreements (should be related to examination of leases and other agreements).

Operating and Other Expenses

.410 Illustrative Audit Objectives

To determine that:

- Reported expenses include costs which are properly allocable to the year (period) and are properly matched with revenues.
- Recognition has been given to all costs and expenses (including losses) which should be recognized.
- All tax timing differences have been accounted for.
- Extraordinary items have been properly classified and disclosed.
- The income statement is prepared in conformity with generally accepted accounting principles consistently applied.
- Costs and expenses are appropriately classified and described in the statement of income.

.420 Illustrative Substantive Test Procedures

1. Obtain or prepare comparative analyses showing amounts for the current and preceding years or periods (and budgeted amounts) and the amounts of changes for the following:
   - Income statement with each classification of expenses also analyzed as a percentage of net sales.
   - Schedules showing the individual account balances which comprise each classification in the income statement (for example: comparative schedules of components of manufacturing costs plus opening inventory less closing inventory, selling expenses, general and administrative expenses, etc.).
     a. Consider whether the classification of expenses is in conformity with generally accepted accounting principles consistently applied.
     b. Obtain explanations for significant or unusual fluctuations in expense account balances from the preceding year (or period) and from budgeted amounts. (Consider results of work done on accrued expense balances for the current and preceding year.)
     c. Obtain explanations for significant or unusual differences between the current year and preceding year relationships of statement classifications of expenses as percentages of revenue.
     d. Compare the inventory turnover and gross profit ratios for the current and preceding year.

2. Determine that the following expense accounts have been traced to the analysis working papers for examination of the related asset and liability balances:
   a. Bad debt expense (allowance for doubtful accounts—trade receivables)
   b. Insurance expense (prepaid insurance, and accrued premiums for workmen's compensation)
   c. Property taxes (prepaid and/or accrued property taxes)
   d. Depreciation expense (property and equipment, and accumulated depreciation)
   e. Amortization costs (intangible assets)
   f. Interest expense (notes payable, long-term debt, capitalized leases)
   g. Provision for income taxes (liability for income taxes currently payable, deferred income taxes)
   h. Realized losses on current investments (marketable equity securities)
   i. Loss on sale or disposition of property and equipment (property and equipment)
3. Obtain or prepare analyses of the following accounts and examine supporting detail (on a complete or test basis as deemed appropriate):
   a. Professional fees (lawyers' invoices should have been examined and noted during work on commitments and contingencies concerning pending litigation).
   b. Rent and royalty expense (should be related to examination of leases and other agreements—other lease obligations or license agreements may be disclosed).
   c. Officers' salaries and directors' fees (to determine that amounts agree with those authorized per the minutes of board of directors' meetings).
   d. Maintenance and repairs (if not already tested in connection with property and equipment; determine that expenses do not include amounts which should be capitalized).
   e. Travel and entertainment (review client's procedures for compliance with income tax requirements).
   f. Unusual classifications such as loss provisions for discontinued operations and plant closings.
4. Consider obtaining or preparing analyses and examining supporting detail on a test basis for the following expenses:

a. Research and development
b. Advertising
c. Contributions

5. Based on the evaluation of internal accounting control for payroll, consider reconciling wages and salaries and payroll taxes to amounts reported per the payroll tax returns.

Litigation, Claims and Assessments

.430 Illustrative Audit Objectives

- Identify the existence of any contingencies arising from litigation, claims and assessments; when the underlying cause occurred; the likelihood of an unfavorable outcome, and the amount or range of possible loss.
- Determine that the financial statements include proper accruals and/or disclosure of the contingencies.

.440 Illustrative Substantive Test Procedures

1. Assemble findings concerning litigation, claims and assessments from such other procedures as:

   a. Reading minutes of meetings of stockholders, directors, and appropriate committees held during and subsequent to the period being examined.

   b. Reading contracts, loan agreements, leases, and correspondence from taxing or other governmental agencies, and similar documents.

   c. Obtaining information concerning guarantees from bank confirmation forms.

   d. Inspecting other documents for possible guarantees by the client.

2. Inquire of and discuss with management the policies and procedures adopted for identifying, evaluating, and accounting for litigation, claims, and assessments.

3. Obtain from management a description and evaluation of litigation, claims, and assessments that existed at the date of the balance sheet being reported on, and during the period from the balance sheet date to the date the information is furnished, including:

   a. Identification of those matters referred to legal counsel.

   b. Assurances from management, ordinarily in writing, that they have disclosed all such matters required to be disclosed by Statement of Financial Accounting Standards No. 5 [AC section C59].

4. Examine documents in the client's possession concerning litigation, claims, and assessments, including correspondence and invoices from lawyers.
5. Obtain assurance from management, ordinarily in writing, that they have disclosed all unasserted claims that the lawyer has advised them are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 [AC section C59]. Also the auditor, with the client's permission, should inform the lawyer that the client has given the auditor this assurance. This client representation may be communicated by the client in the inquiry letter or by the auditor in a separate letter.
6. Request the client's management to send a letter of inquiry to those lawyers consulted by the client concerning litigation, claims, and assessments (see SAS No. 12, AU section 337, for guidance).

Subsequent Events

.450 Illustrative Audit Objectives

- To identify any events or transactions occurring after the balance sheet date, but before issuance of the financial statements and auditor's report (subsequent events) which require adjustment or disclosure in the financial statements.
- To determine that the financial statements have been adjusted for changes in estimates resulting from evidence provided by subsequent events.
- To determine that the financial statements include adequate disclosure of evidence provided by subsequent events which should not result in adjustment of the financial statements but should be disclosed.

.460 Illustrative Substantial Test Procedures

1. Read the latest available interim financial statements:
   a. Compare them with the financial statements being reported upon; and make any other comparisons considered appropriate in the circumstances.
   b. Inquire of officers and other executives having responsibility for financial and accounting matters as to whether the interim statements have been prepared on the same basis as that used for the statements under examination.
2. Inquire of and discuss with officers and other executives having responsibility for financial and accounting matters as to:
   a. Whether any substantial contingent liabilities or commitments existed at the date of the balance sheet being reported on or at the date of inquiry.

b. Whether there was any significant change in the capital stock, long-term debt, or working capital to the date of inquiry.

c. Whether there were any significant changes in estimates with respect to amounts included or disclosed in the financial statements being reported on.

d. Whether any unusual adjustments had been made during the period from the balance-sheet date to the date of inquiry.

3. Read the available minutes of meetings of stockholders, directors, and appropriate committees; as to meetings for which minutes are not available, inquire about matters dealt with at such meetings.

4. Assemble pertinent findings resulting from response of client's legal counsel and other auditing procedures concerning litigation, claims, and assessments.

5. Obtain a letter of representation, dated as of the date of the auditor's report, from appropriate officials, generally the chief executive officer and chief financial officer (see item number 6 at AAM section 5400.040) in accordance with SAS No. 19 (AU section 333).

6. Make such additional inquiries or perform such procedures deemed necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures, inquiries, and discussions.

AAM Section 6000
WORKING PAPERS

Sample working papers are presented for illustrative purposes only. They are intended as mere conveniences for users of this Manual who may want points of departure when designing their own formats to meet their individual needs. These illustrations are neither all-inclusive nor prescribed minimums. Auditors and accountants are to rely on professional standards and their individual professional judgment in determining the workpapers needed in the circumstances.

TABLE OF CONTENTS

Section		Paragraph
6100	Working Papers—General	.01-.03
	General Discussion	.02-.03
6200	Basic Elements of Format	.01-.04
6300	Content of Working Papers	.01-.06
	General Considerations	.02
	Timesaving Considerations	.03
	Symbols (Tick Marks)	.04-.06
6400	Organization and Filing (Indexing)	.01-.09
	Predetermined Indexing	.02-.05
	Current and Permanent Files	.06-.08
	Index Topics	.09
6500	Sample Working Papers	.010-.770
	General Comment	.020-.030
	Assembly Sheet—Balance Sheet	.040
	Assembly Sheet—Results of Operations, Retained Earnings	.050
	Changes in Financial Position Worksheet	.060
	Adjusting Journal Entries	.070
	Reclassification Entries	.080
	Potential Adjustments	.090
	Potential Adjustments and Reclassifications	.100
	Working Trial Balance	.110
	Tax Return Worksheet—Reconciliation to Reported P & L	.120

Section		Paragraph
6500	Sample Working Papers—Continued	
	Confirmation Control Sheet	.130
	Materials to be Prepared by Client	.140
	Lead Schedule (Sheet)—General Example	.150
	Cash—Lead Sheet	.160
	Petty Cash Count	.170
	Bank Reconciliation	.180
	Standard Bank Confirmation Inquiry	.190
	Cash—Symbol Legend for Bank Reconciliations	.200
	Bank Transfer Schedule	.210
	Proof of Cash	.220
	Marketable Equity Securities, Cost, Market & Gross Unrealized Gains (Losses)	.230
	Marketable Equity Securities—Analysis	.240
	Marketable Equity Securities—Valuation Allowances	.250
	Notes Receivable	.260
	Accounts Receivable—Lead Sheet	.270
	Accounts Receivable—Confirmation Statistics	.280
	Accounts Receivable—Reconciliation from Confirmation Date to Year End	.290
	Accounts Receivable—Review of Post Balance Sheet Credit Memos	.300
	Confirmation Control Sheet	.310
	Accounts Receivable—Aging Analysis	.320
	Accounts Receivable—Other	.330
	Allowance for Doubtful Accounts—Related Expense	.340
	Allowance for Doubtful Accounts, Provisions, Write Offs and Recoveries	.350
	Inventories—Lead Sheet	.360
	Inventory—Analysis from Physical to Year End	.370
	Inventory—Test Counts	.380
	Inventory Price Test—Raw Materials	.390
	Inventory Price Tests of Work-in-Process and Finished Goods—General Note on Working Papers	.400
	Prepaid Insurance and Related Expense	.410
	Prepaid Insurance (Alternative Format)	.420
	Property Taxes—Prepaid & Accrued	.430
	Prepaid Expenses—Other	.440
	Deposits & Miscellaneous Current Assets	.450
	Property, Plant & Equipment, & Related Depreciation—Lead Analysis	.460
	Property, Plant & Equipment—Additions	.470
	Property, Plant & Equipment—Retirement & Dispositions	.480
	Intangible Assets	.490
	Accounts Payable—Lead Sheet	.500
	Trade Accounts Payable—Schedule	.510
	Unrecorded Liabilities Test	.520
	Accounts Payable—Confirmation Differences	.530
	Miscellaneous Current Liabilities	.540
	Dividends Payable	.550
	Liability for Payroll Taxes Withheld	.560
	Accrued Payroll Taxes	.570

Section		Paragraph
6500	**Sample Working Papers—Continued**	
	Accrued Payroll	.580
	Accruals—Other	.590
	Debt—Notes Payable & Related Interest	.600
	Debt—Summary of Assets Pledged	.610
	Federal (State) Income Taxes—Accrued & Provided	.620
	Provision for Federal (State) Income Taxes	.630
	Deferred Income Taxes & Timing Differences (Carryforward)	.640
	Contingent Liabilities and Commitments Other Than Leases	.650
	Capital Stock & Additional Paid-in Capital—Analysis	.660
	Capital Stock—Certificate Book Examination (Carryforward)	.670
	Retained Earnings—Analysis (Carryforward)	.680
	Revenue and Expense Working Papers—General Note	.690
	Legal Expense	.700
	Maintenance & Repairs Expense	.710
	Officers Salaries and Expense	.720
	Taxes, Licenses and Fees	.730
	Rents and Royalties	.740
	Interest Expense Recapitulation	.750
	Other Income	.760
	Other Expense	.770

The next page is 6101.

AAM Section 6100

Working Papers—General

.01 Working papers serve both as tools to aid the auditor in performing his work, and as written evidence of the work done to support the auditor's report. SAS No. 41 [AU section 339] provides authoritative guidance on the functions and nature, general content, and ownership and custody of working papers.

General Discussion

.02 These sections present points of view on the organization and preparation of working papers and include selected illustrations of working papers, primarily analyses and schedules.

.03 Proper planning is important in the design of specific working papers if they are to serve the objective of aiding the auditor in the conduct of his work. For example, a well-planned working paper may be designed to provide information that will be needed later in the preparation of tax returns and other required reports, such as those to regulatory bodies, and may therefore eliminate the need for examining the same documents twice to obtain necessary information. The format and content of the working papers may vary with the individual preferences of auditors and firms. These preferences may be informal common practices or expressed as part of a firm's formal written policies and procedures. A firm should consider the nature of its practice and the services commonly provided to its clients, as well as professional standards in developing its procedures and policies on working papers. Those procedures and policies should permit the flexibility necessary to meet the needs of individual engagements.

The next page is 6201.

AAM Section 6200

Basic Elements of Format

.01 Working paper formats generally include at least the following for identification purposes:

- A title or heading comprised of (a) the name of the client, (b) a caption that briefly describes the paper's contents, (c) the nature of the engagement, and (d) the applicable period or closing date covered by the engagement.
- The initials or names of the auditors who performed and reviewed the work presented in the paper and the date the paper was completed.

.02 In instances when one working paper requires more than one page, some auditors present the heading on only the lead page, fasten or staple all the applicable pages together as a unit and number each page, for example, 1 of 5, 2 of 5, and so forth. Many auditors index each working paper in some organized pre-established manner. This provides for ease in cross referencing to other relevant papers, for more organized indexing and filing, and for a form of control over the working papers. (See section 6400.)

.03 Some auditors purchase standard analysis paper that includes preprinted blocks for the initials or signature of the preparer and reviewer, and the dates on which the paper was prepared and reviewed. Others design their own signature and reference blocks and have them imprinted on all of their analysis paper and lined pads. These signature blocks may include captions such as the following:

—prepared by client and tested by
—prepared by
—date prepared
—date tested
—reviewed by
—date reviewed
—source
—work paper reference
—footed by
—extensions checked by

.04 Some auditors prefer to identify client preparation of schedules and analysis by notations or codes, such as "PBC," for prepared by client, rather than use a detailed signature and reference block.

The next page is 6301.

AAM Section 6300

Content of Working Papers

.01 The content of working papers varies with the circumstances and needs of the auditors on individual engagements. Some firms, however, include various general and specific instructions on working paper content in their policies concerning working papers.

General Considerations

.02 The following are some general considerations on working paper content that may be helpful.

- Working papers should be sufficiently intelligible, clear and neat so that another auditor who has had no previous association with the engagement can review the papers and determine the nature and extent of the work done and how the conclusions were reached that support the resulting auditor's report.
- The content of an individual working paper or group of related papers should include identification of the (1) source of the information presented (e. g., fixed assets ledger, cash disbursements journal), (2) the nature and extent of the work done and conclusions reached (by symbols and legend, narrative, or a combination of both), and (3) appropriate cross references to other working papers.
- Before completion of the engagement, all questions or exceptions in the working papers should be resolved. If for some reason the auditor must leave the assignment without resolving all items, he should provide an open items listing on a separate temporary paper for the in-charge auditor's attention. An unresolved exception or incomplete explanation in the working papers may be construed by some as indication of an inadequate audit.
- Information and comments in the working papers generally represent statements of fact and professional conclusions. Accordingly, language should be clear and free from such vague judgmental adjectives as "good" or "bad." Conclusions should be supported by documented facts, especially if they concern the adequacy of the client's records.
- Working papers should be viewed as an integrated presentation of information. The auditor should cross-reference working papers to call attention to interaccount relationships and to

reference a paper to other working papers summarizing or detailing related information.

- The preparer should view the working papers as if he were the in-charge auditor. All inferences and conclusions should be supported in the working papers and no misleading or irrelevant statements should be made.
- It is preferable to have negative figures in working papers indicated by parentheses instead of red figures to preserve their identity if the papers are photocopied or microfilmed.

Timesaving Considerations

.03 There are a number of ways to save time and avoid unnecessary detail in working paper preparation. The following examples may be helpful.

- Whenever possible, have the client's employees prepare schedules and analyses. (This, of course, presupposes that the client has the necessary personnel to prepare the materials.)
- Use of a detailed audit program may eliminate the need for lengthy comments in the working papers on the scope of audit procedures. (However, some believe that such comments are still necessary when a detailed program is used; this is a matter of individual firm judgment.)
- Analyze asset (or liability) accounts and their related expense or income accounts on the same working paper. Examples include property, plant and equipment, accumulated depreciation and related depreciation expense; notes receivable, accrued interest receivable and interest income; notes payable, accrued or prepaid interest, and interest expense; and accrued taxes and related provisions for tax expense.
- Avoid unnecessary computations. For example, if only the totals are meaningful and can be tested by a single independent computation, check the total and avoid unnecessary checking of details.
- Consider using carryforward analyses for accounts that tend to remain constant each year or vary only in accordance with a constant predetermined formula. Examples may include long-term assets and related depreciation or amortization such as plant, equipment and intangibles, long-term debt with predetermined payment schedules, and capital stock.
- Consider using adding machine tapes instead of writing separate lists. Enter names or explanations on the tapes, when appropriate.
- Do not manually copy a document when photographic reproduction is feasible.

- If in doubt, use a larger sheet of paper—an unused portion is less of a problem than running out of space.
- Use symbols (tick marks) whenever possible, especially when the same symbol applies to several working papers.

Symbols (Tick Marks)

.04 When using symbols, it should be helpful to consider the following basic concepts:

- Symbols are merely a shorthand means of explaining a work step performed on a particular item of data. Symbols serve as means of conserving time and space and, if properly used, may ease review of the working papers.
- For a working paper to be clear to a reviewer or other reader, each symbol must be clearly explained. The explanation may be located on the same page as the items subjected to the work step, or on a separate legend that is clearly cross-referenced to and from the page that presents the applicable items.
- Symbols should be kept simple, distinctive and clear so they can be quickly written by the preparer and easily identified by a reviewer.

.05 Applying these basic concepts is not that simple. Various auditors have conflicting notions about symbols. For example, on the matter of color, some believe all tick marks should be in color to make it easy to spot them in the working papers. Others believe it is a waste of time to keep "switching pencils" and observe that the color distinction is lost in photocopying. On another matter, some believe a set of standardized symbols can expedite preparation and review. Others believe that a set of standardized symbols is impractical because it lacks flexibility. Because it is generally agreed that symbols are an effective timesaver, it is desirable for firms to establish and communicate a policy on their use to maximize their potential effectiveness.

.06 Commonly used symbols, as noted, should be simple and distinctive, not elaborate hieroglyphics. The most common are variations on a simple checkmark—for example, a checkmark with a slash, a checkmark with a circle at the end, a double checkmark, and any one of these within a circle. This abbreviated listing alone provides eight distinctive tick marks. Symbols may also include circled letter or numbers.

The next page is 6401.

AAM Section 6400

Organization and Filing (Indexing)

.01 Some auditors organize their working papers during the course of an engagement into general categories such as the following:

- Planning and administration.
- Internal control review and compliance testing.
- Substantive test working papers arranged in order of the balance sheet and income statement classifications.
- Trial balances, consolidating working papers, journal entries (adjustments, reclassifications, eliminations for consolidation), and potential entries.
- Draft reports, financial statements and footnotes.
- Programs, checklists and questionnaires (some keep these as separate units, others interfile them among working papers by statement classifications).
- General matters such as current minutes, contracts, and articles of incorporation that may apply to future engagements as well as current work.

Under this approach, actual indexing and filing would be deferred until the conclusion of the engagement.

Predetermined Indexing

.02 Other practitioners and firms may use a predetermined indexing approach so that working papers can be indexed while the field work is still in progress. This offers the following advantages:

- Better control over working papers during the performance of field work.
- Constant arrangement of working papers in logical order to aid in review.
- Less time required in assembling and binding them into indexed files.
- Quicker access to specific working papers after they are filed.

.03 Predetermined indexing involves establishing a standard code for each section of the working papers, using letters and numbers, or numbers only. For example—

	Two Possible Alternatives	
Working trial balance—assets	B/S-A	T/B-1
Working trial balance—liabilities	B/S-L	T/B-2
Working trial balance—income & expense	P/L	T/B-3
Cash summary schedule	A	10
Receivables summary schedule	B	20
Inventory summary schedule	C	30

.04 Predetermined indexing requires recognition of the need for flexibility to meet unanticipated working paper needs or specialized industry requirements and it requires care to avoid undue complexity. Excessively complex references may obstruct rather than ease working paper preparation, cross-referencing and filing. Accordingly, it is helpful to develop an organizational plan adaptable to each section of the working papers. For example, some accountants classify working papers as lead schedules, primary detail, and secondary detail which might result in the following classification scheme for the above examples for cash:

	Using Letters and Numbers	Using Only Numbers
Lead schedule	(A)	(10)
Primary detail schedules	(A-1) (A-2) etc.	(10-1) (10-2) etc.
Secondary detail schedules	(A-1-1) (A-1-2) (A-1-3)	(10-1-1) (10-1-2)
	(A-2-1) (A-2-2) (A-2-3)	(10-2-1) (10-2-2)

.05 Predetermined (standardized) indexing systems may be printed on separate pages for reference during the performance of field work and insertion in the front of working paper binders or files when the work is completed. Some firms have their uniform indexing systems printed directly on their file or binder covers.

Current and Permanent Files

.06 Working paper files are generally classified as current files and permanent (continuing) files. Current files contain information that is pertinent to a single engagement. Permanent files include information relevant to several recurring engagements. Some firms have their binder or file covers preprinted as current or permanent accompanied by pertinent portions of their uniform working paper indexes.

.07 A common challenge to many auditors is to keep the permanent file complete and current, and free from outdated or irrelevant materials that belong in an inactive file of superseded materials.

.08 Some auditors who have confronted one too many unwieldy permanent files believe all working papers should be classified as current with certain materials designated as matters of continuing interest to be carried forward each year until they become outdated. Under this approach, a firm may preprint its complete index on one type of file or binder cover and provide space to indicate whether specific contents are continuing or carry-forward in nature.

Index Topics

.09 The following is a list of topics to consider in developing a standard index for working papers. This list is detailed, but is by no means all-inclusive. For example, specialized industries such as life insurance and banking need other specialized topics. Several of the topics may be eliminated, condensed or expanded, depending on the auditor's needs and preferences. Topics that some auditors prefer to include in both the permanent and current files or only in the permanent files are followed by the letter (P).

Planning and administration
. Time & budget data
. General correspondence & memos
. Planning memos—current
. Planning notes & confirm copies for use in next engagement
. Engagement letters
. Schedules & analyses to be prepared by client
. Minutes
. Checklist of an administrative nature if required by firm policy

Audit or work program (Note 1)

Matters of continuing concern
. Client's industry—background (P)
. Description & brief history of client (P)
. Data & ratio analysis of client's operations (P)
. Client's facilities (P)
. Articles of incorporation (P)
. Bylaws (P)
. Current contracts & agreements (P)
. . Debt agreements (P)
. . Leases (P)
. . Labor contracts (P)
. . Agreements with officers & key people (P)
. . Pension plans (P)
. . Profit-sharing plans (P)
. . Stock warrants (P)
. . Stock options (P)
. . Other agreements (P)
. Client's accounting policies & procedures (P)
. Carryforward analyses (Note 2)

Internal accounting control
. Internal control questionnaire, narratives, flow charts, etc. (Note 3)
. Preliminary evaluation memos
. Compliance (procedural) tests

Reports, financial statements and footnotes, trial balances and assembly sheets
. Reports & financial statements (including letter, if any, on material weaknesses in internal accounting control)
. Consolidating working papers
. Consolidation eliminating entries
. Trial balance
. Adjusting journal entries
. Reclassification journal entries
. Recap of possible adjusting entries
. Assembly sheets supporting footnote disclosures (if the information is not included elsewhere in the working papers)
. Disclosure checklists (if required by firm policy)
. Supporting schedules (if required for reports to regulatory bodies or other long-form reports)
. Tax return info & work sheets (Note 4)

Assets
. Cash
. Marketable securities (and related income)
. Notes receivable (and related interest)
. Accounts receivable
. . Summary and analyses
. . Confirmation procedures (Notes 2 and 5)
. Allowance for doubtful accounts & notes (Note 2)
. Inventories
. . Summary and analyses
. . Price tests, cost & market
. . Obsolescence review
. . Observation, test counts & cut-off data
. . LIFO determinations
. Prepaid expenses
. Other current assets
. Investments
. Property plant & equipment, and accumulated depreciation, depletion & amortization (Note 2)
. Intangible assets, deferred charges & amortization (Note 2)
. Other assets
. Intercompany accounts

Liabilities
. Notes payable (and related interest)
. Accounts payable
. Accrued liabilities other than income taxes
. Accrued income taxes (current & deferred), related provisions & credits (Note 2)
. . Federal
. . State & local

. Other current liabilities
. Long term debt (including current maturities and capitalized leases) (Note 2)
. Other long term liabilities
. Deferred income (Note 2)

Commitments and contingencies
. Attorneys' letters
. Abstracts of commitments & contingencies noted during review of minutes, contracts & agreements, confirmation responses, etc.
. Subsequent events review
. Management representation letter

Equity (capital accounts) (Note 2)
. Capital stock
. Additional paid-in capital
. Treasury stock
. Retained earnings
. Partnership capital

Revenue and expenses
. Operating revenues
. Cost of sales
. Selling, general & administrative
. Other operating expenses
. Other income
. Other expense
. Extraordinary & unusual items
. Secondary schedules
. . Maintenance & repairs
. . Taxes other than income taxes
. . Rents
. . Royalties
. . Advertising costs
. . Legal fees
. . Interest expense recap

NOTES TO USER:

1. Alternate practices of filing audit programs include:
   (a) Putting the program in a binder that is separate and distinct from the current and permanent files.
   (b) Putting the signed off program in the current file.
   (c) Keeping a master copy of the program in the permanent file with the signed off copies dispersed among the related working paper segments in the current file.
2. Certain classifications may lend themselves to carry-forward working papers. Examples include allowances for doubtful accounts, brief summaries of confirmation response statistics, accumulated

NOTES TO USER—continued

depreciation and amortization, deferred income taxes and open tax positions, long-term debt, and capital accounts.

3. Internal accounting control questionnaires may be filed as separate binders or as part of current or permanent files.
4. Some firms and practitioners keep tax return preparation working papers in files that are completely separate from other types of engagement working papers.
5. For situations involving voluminous confirmation responses or bulk inventory listings, the bulk materials may be filed in separate binders that are cross referenced to the pertinent working papers (for example: accounts receivable, accounts payable, and inventory).

The next page is 6501.

AAM Section 6500

Sample Working Papers

.010 The samples of individual working paper formats included in this section are for illustrative purposes only.

General Comment

.020 These illustrations are included to help users of the manual save time by using them as points of departure in designing their own formats to meet their individual needs. For example, the analysis formats included among the samples tend to present a single step of activity between balances at the opening and closing dates of a fiscal year. If an auditor decides to do substantive testing prior to a fiscal year end, he may wish to use analysis formats that show activity between balances at the opening date of a fiscal year and a preliminary date during the year, and another step of activity from the preliminary date to the fiscal year end. Also the analysis formats in this section tend to present balance and activity captions as column headings with components shown on the line items as follows:

Description	Opening balance	Expense provision	Disbursements	Closing balance
....	xxx	xxx	(xxx)	xxx
....	xxx	xxx	(xxx)	xxx
....		xxx	(xxx)	xxx
Totals..........	xxx	xxx	(xxx)	xxx

An alternate approach would be to present balance and activity captions as line items and use the column headings for components as shown in the following example:

		Components		
	Totals	...	...	...
Opening balance	xxx	xxx	xxx	
Expense provision	xxx	xxx	xxx	xxx
Disbursements	(xxx)	(xxx)	(xxx)	(xxx)
Closing balance	xxx	xxx	xxx	xxx

.030 The decision as to appropriate format must be made by the individual auditor after considering all the circumstances of the engagement.

→ *The next page is 6503.* ←

.040

ABC Co.
Assembly Sheet - Balance Sheet
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Working paper ref.(B)	Classifications (A)(F)	Final balance(C) 12/31/X4	Per client(C) 12/31/X5	Adjusting Entries (D) Dr.	Adjusting Entries (D) Cr.	Balances as adj. 12/31/X5	Reclassification Entries (E) Dr.	Reclassification Entries (E) Cr.	Final for report(F)	Remarks
	Current assets:									
A	Cash									
B	Marketable securities									
C	Accounts receivable									
D	Less, allowance for doubtful accounts	( )	( )							
	Net									
E	Inventories - raw materials									
E	- supplies									
E	- work-in-process									
E	- finished goods									
	Total									
F	Prepaid expenses									
F	Other current assets									
	Total current assets									
B	Other security investments									
B	Less, valuation allowance	( )	( )							
J	Property plant & equipment, at cost									
J	Land									
J	Buildings									
J	Machinery & equipment									
J	Furniture & fixtures									
J	Leasehold improvements									
J	Less, accumulated depreciation & amortization									
J	Buildings	( )	( )							
J	Machinery & equipment	( )	( )							
J	Furniture & fixtures	( )	( )							
J	Leasehold improvements	( )	( )							
		( )	( )							
	Net									
K	Other assets - Cash surrender value									
K	- Intangible assets									
K	- Other									
	TOTAL ASSETS									

NOTES:

(A) Financial statement assembly sheets generally include the same captions (classifications) as the financial statements. For comparison purposes they also show the final amounts reported for the preceding year. For convenience, some auditors may include additional detail in support of the statement classifications on their assembly sheets.

The amounts for each caption would be supported by comparative lead sheets in each grouping of substantive test working papers. These lead sheets provide a trail to evidence of the work done and show comparatively how specific amounts in the client's accounts are grouped for classification in the financial statements for both the current year and as reported for the preceding year. (However, see the sample "Working Trial Balance" for an alternative approach)

(B) The column "work paper ref." in this illustration may include specific indexing codes used in a predetermined indexing approach.

(C) The final balances for the preceding year (12/31/X4 in this illustration) would be obtained from last year's audit report for the assembly sheets, and from last year's working papers for the supporting comparative lead sheets. The per client balances for the current engagement would be developed from the supporting comparative lead sheets which have been agreed to the client's general ledger.

(D) Adjusting entries would be posted to the comparative lead sheets and grouped. Then the grouped adjustments would be posted from the comparative lead sheets to these assembly sheets. The adjusted balances on the lead sheets as of 12/31/X5 would agree with the client's final account balances after posting of the adjusting entries.

(continued)

ABC Co.
Assembly Sheet - Balance Sheet (continued)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Work paper ref. (B)	Classifications (A)(F)	Final balance (C) 12/31/X4	Per client (C) 12/31/X5	Adjusting Entries (D) Dr.	Adjusting Entries (D) Cr.	Adjusted Balance 12/31/X5	Reclassification Entries (E) Dr.	Reclassification Entries (E) Cr.	Final for report (F) 12/31/X5	Remarks
	Liabilities									
	Current Liabilities:									
N	Notes payable									
O	Accounts payable									
P	Accrued expenses									
Q	Income taxes									
Q	Deferred income taxes - current portion									
R	Other Current Liabilities									
S	Current Portion of Long-Term Debt									
	Total Current Liabilities									
S	Long-Term Debt									
Q	Deferred Income Taxes									
	Total Liabilities									
	Stockholders' Equity:									
X	Common Stock									
X	Paid-in Capital									
Y	Retained Earnings									
	subtotal									
Z-1	Less, cost of common stock in treasury									
	Stockholders' equity									
	Total Liabilities and Stockholders' Equity									

NOTES: (continued)

(E) Columns are also provided for reclassification entries that may be needed for financial statement purposes but do not need to be posted to the client's accounts.

(F) The amounts presented in the assembly sheets and supporting comparative lead sheets should be consistent and clearly cross-referenced.

.050 ABC Co.
Assembly Sheet - Results of Operations, Retained Earnings
12/31/X5

	Initials	Date
Prepared By		
Approved By		

W.P. ref.	Classifications (A)	Final Balances 12/31/X4	Per client 12/31/X5	Adjusting Entries Dr.	Adjusting Entries Cr.	Balances as adj. 12/31/X5	Reclassification Entries Dr.	Reclassification Entries Cr.	Final for Report	Remarks (B)
AA-1	Net sales									
BB-1	Cost of sales*									
BB-2	Research & development*									
CC-1	Selling, general & administrative expenses*									
	Subtotal before other income & expense									
	Other income & expense									
B-2	Dividend income									
EE	Interest expense									
GG-1	Other expense									
	Net									
	Total expenses before inc. taxes									
	Income before income tax provisions									
	Provision for income taxes									
Q	Current - federal									
	- state									
	subtotal									
	Deferred - federal									
	- state									
	subtotal									
	NET INCOME									
Y	Retained earnings - beginning of year									
Y	Less = Dividends									
Y	Retained earnings, end of year									
	*Memo = Depreciation included above in									
BB-1	Cost of sales									
BB-2	R&D									
BB-3	SG&A									
J-1	Total									

NOTES:

(A) Each classification should be supported by a comparative lead sheet. This illustration includes the following assumptions.

- Research and development costs are of enough significance to require a separate caption.
- ~~ABC Company is not required to report segment~~ information or earnings per share.
- Depreciation expense is to be disclosed in the statement of changes in financial position; the auditor also noted depreciation expense on this working paper as a memo for his convenience.

(B) See SAS No. 23 for guidance on analytical review procedures.

.060

DEF Company
Changes in Financial Position Worksheet (A)
12/31/X5

Initials	Date
Prepared By	
Approved By	

(1) Other WP refs.	(2)–(4) From assembly sheets for reported balance sheet and other WPs	(5)	(6) (B) 12/31/X4	(7) (B) 12/31/X5	(8) Net Change (C) Dr. (Cr.)	(9) Net Inc. Dpcn. & Amort.	(10) Other funds provided Amount	(11)–(12) Other funds provided Description	(13) Funds applied Amount	(14)–(15) Funds applied Description	(16) Changes in W.C.
	Cash		10000.	5000.	(5000)						(5000)
	Marketable securities		50000.	60000	10000						10000
	Accounts receivable, net		400000	500000	100000						100000
	Inventory		300000	350000.	50000						50000
	Prepaid expenses & other current assets		10000	15000.	5000						5000
J-1	Property plant & equipment, at cost		500000.	650000	150000.		(50000)	Retirements of fixed assets	200000.	Purchase of fixed assets	
	Accumulated depreciation		(100000)	(130000)	(30000)	(60000)	30000				
							(20000)				
	Other assets		50000.	55000.	5000.				5000	Increase in other assets	
	Total assets		1220000	1505000							
	Notes payable		100000.	130000.	(30000)						(30000)
	Accounts payable		100000	110000.	(10000)						(10000)
	Accrued expenses		20000.	30000	(10000)						(10000)
	Income taxes		40000.	50000	(10000)						(10000)
	Deferred income taxes - current portion		20000.	30000.	(10000)						(10000)
	Other current liabilities			5000.	(5000)						(5000)
	Current portion - long-term debt		20000.	30000	(10000)						(10000)
S-1	Long-term debt		260000.	300000	(40000)		(160000)	Proceeds L.T. Debt	120000.	Retirement of debt	
Q-1	Deferred income taxes		60000.	80000	(20000)		(20000)	Incr. def. taxes			
X-1	Capital stocks		100000.	120000	(20000)		(100000)	Proceeds, issuance of stock	60000.	Purchase of stock	
	Additional paid-in capital		100000.	120000	(20000)						
Y-1	Retained earnings	Memo Anal									
	12/31/X4	400000	400000								
	Net income	200000			(200000)	(200000)					
Y-1	Dividends	(100000)			100000				100000	Cash dividends	
	12/31/X5	500000		500000							
	Total liabilities & equity		1220000	1505000		(260000)	(300000)		485000		
	Proofs				-0-	Total provided		560000 Less total funds applied		485000 =	75000

NOTES:

(A) This working paper supports the statement of changes in financial position. Proponents of this schedule believe that taking short-cuts may often lead to excessive preparation time (not being able to reconcile because of omissions, etc.) and review time (unable to cross reference back to sources).

(B) Use final amounts to be included in the reported balance sheet.

(C) Before spreading changes for analysis purposes, the increases and (decreases) column should be footed and balanced to zero.

.070

ABC Co.
Adjusting Journal Entries
12/31/X5

	Initials	Date
Prepared By		
Approved By		

W.P. Ref.		Client's acct. no.	Dr.	Cr.
	(1)			
	Provision for doubtful accts	xxxx	xxxx (P)	
D-1	Allowance for doubtful accounts	xxxx		xxxx (P)
	To provide an allowance for the balance of xxxx due from Zxywvts Ind. which disclosed its intent to file under Chapter 11 on 12/27/X5			
	(2)			
	Cost of sales	xxxx	xxxx (P)	
E-3	Inventory - supplies	xxxx		xxxx (P)
	To adjust supplies inventory at Plant B to xxxxx per the 12/31/X5 physical.			
	(P) = Traced to client's posting of general ledger.			

NOTE:

Adjustments affect the client's accounts and are the client's entries. Their explanations should offer a reader enough information to know why the entry is needed. To merely say "adjust balance to actual" or "per working paper page xx" is not enough.

.080

ABC Company
Reclassification Entries
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	Workpaper Reference	Dr.	Cr.
A			
Long-Term Debt	S	xxxxx	
Current Portion of Long-Term Debt	S		xxxxx
To reclassify the portion of long-term debt due within one year to current portion for statement purposes			
B			
Accounts Receivable	C	xxxx	
Accounts Payable	O		xxxx
To reclassify credit balances in accounts receivable to accounts payable for statement purposes			

NOTE:

These entries are made for classification purposes within an individual financial statement and do not affect earnings. Normally, they do not affect the client's accounts and are made only for reporting purposes. However, their explanations should offer a reader enough information to understand why the entry is needed. For information purposes, it may be helpful to provide the client with a copy of the reclassification entries.

.090

ABC Co.
Potential Adjustments
12/31/X5

	Initials	Date
Prepared By		
Approved By		

W.P. Refs.		Dr. (Cr.)	P&L Eff. increase (decrease)	Disposition
		(A)	(B)	AJE 1
	Provision for doubtful accts.	10000	(10000)	(10000)
	Allowance for doubtful accts.	(10000)		
C-5	Re bal of xxx due from Zxywvts Ind.			
D-1	announced intent of bankruptcy 12/27/X5.			
				AJE 2
	Cost of sales	10000	(10000)	(10000)
	Inventory - supplies	(10000)		
E-1 E-5	To adjust books to 12/31/X5 physical of supplies inventory at plant B.			
0-4 0-4	SG&A	500	(500)	Waived as immaterial
	Accts. payable	(500)		
	Unrecorded liabilities re:			
	Phone 300			
	Electric 200			
	Total P&L effect of potential adj.		(20500)	
	Less, total effect of adjusting journal entries (AJEs)		(20000)	(20000)
	P&L Effect of total items waived		(500)	
	Less:- Estimated effect of income taxes on waived items and AJEs		200 (C)	8000 (C)
	P&L effect net of income taxes		(300)	(12000)
	Net income per financial statements-unadj.			72000
	-final as adjusted			60000
	Waived items net of tax (300) as percent of final net income 00.5% (D)			
	Approved (signature of audit partner) Date (Completion of field work)			

NOTES:

(A) In this example, debits and credits are grouped in one column and should foot to zero. This was done merely to save space. An auditor may prefer to use separate columns for debits, credits and effect on income. There are many approaches for accumulating potential entries. For example, see the illustrative working paper for accumulating potential adjustments and reclassifications; it provides for accumulation of the effect of potential entries on the balance sheet as well as the income statement.

(B) This column provides for identification of the cumulative effect (which may be material) of a series of relatively immaterial items which are biased in one direction.

(C) For this illustration, the client's effective income tax rate is assumed to be 40%.

(D) The resulting percent is arbitrarily selected solely for demonstrating arithmetic in this illustration.

.100

XYZ Corp.
Potential Adjustments and Reclassifications
3/31/X2

	Initials	Date
Prepared By		
Approved By		

W.P. Ref.		Dr.	Cr.	Eff. on net inc. inc(dec)	Assets Current	Assets Non cur.	Liabilities Current	Liabilities Non cur.	Cap stock & pd. in	Accum earnings	Remarks & disposition
					Balance sheet effect, increase (decrease)						
B/S, P&L	Per financial statements-unadjusted			xxxxx	xxxxxx	xxxxxx	xxxxx	xxxxxx	xxx xxx	xxxxxx	
	①										
J-8	Leased equipment, capitalized	xxxxx(a)				xxxxx(a)					AJE (1) see (a)
J-8	Depreciation expense	xxxx(b)		(xxxx)						(xxxx)	AJE (2) see (b)
T-2	Interest expense	xxxx(c)		(xxxx)						(xxxx)(c)	AJE (3) see (c)
T-1	Capitalized lease obligation		xxxxx					xxxxx(c)			
J-8	Accumulated depreciation		xxxx(b)			(xxxx)(b)					Split into 3 AJEs
	Equipment rental expense		xxxx(c)	xxxx						xxxx(c)	
	To capitalize loader under lease dated 10/15/X1 for period 11/1/X1-10/31/X6, recognize related depreciation and interest expense, and correct client's entry recording payments of xxxx as rental expense, memo info=										(1) To capitalize lease (2) To prov. depcn (3) To correct client's JE re rental exps.
	Total rentals per lease xxxxx	Orig prin	xxxxx(a)								
	Fair val. of loader xxxxx(a)	Pmts	xxx(c)								
	Interest element xxxxx	3/31/X2	xxxxx								
	②										
T-1	Capital lease obligation	xxxx					xxxx				RJE (1)
	Current portion-cap-lease oblig.		xxxx					(xxxx)			
	To segregate current portion of capitalized lease obligation										
	③										
	Travel expense	xxx		(xxx)	(xxx)					(xxx)	Item waived as immaterial
	Advance to employees		xxx								
	Per results of confirmation of advances as of 3/31/X2. As of 3/31/X1, same sort of adjustment for $YYY waived as immaterial										
	Cumulative effect of potential entries			(xxxx)	(xxx)	xxxxx	xxxx	xxxxx		(xxxx)	
	Less, cumulative effect of items waived			xxx ∅	xxx					xxx	
	Effect of AJEs & RJEs before inc. taxes			(xxxx)	-	xxxxx	xxxx	xxxxx		(xxxx)	
	Estimated income tax effect			xxxx			(xxxx)			xxxx	
	Net effect on financial statements			(xxxx)	-	xxxxx	xxxx	xxxxx		(xxxx)	
	Per financial statements, as adjusted			xxxxx	xxxxxx	xxxxxx	xxxxx	xxxxxx	xxx xxx	xxxxxx	

∅-Waived items net of inc. tax=X% of final net income

(a)(b)(c)-Cross references only

Approved (signature of audit partner) Date (completion of field work)

NOTE:
This expanded working paper format allows for accumulating the effect of potential entries on working capital as well as P&L.

.110

ABC Co.
Working Trial Balance
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Account Number	Account Title				Final 12/31/X4 Grouped for rep.	Account balances	Per books 12/31/X5	Adjusting Journal Entries Dr.	Cr.	Final 12/31/X5	12/31/X5 Grouping for rep.	Reclassifications Dr.	Cr.	Final for report	Working paper ref.

ABC Co.
Alternate Format-Working Trial Balance
12/31/X5

Final 12/31/X4 Grouped for report	Reclass. & grouping entries	Final account balances	Account title	Account number	Per books 12/31/X5	Adjustments Dr.	Cr.	Final 12/31/X5	Grouping and Reclassifications Dr.	Cr.	Final for report 12/31/X5	Working paper ref.

NOTES:

This illustration is an alternative to the assembly sheets and lead sheets previously shown. It is a format that may be useful if the client's individual accounts are in a sequence that allows easy grouping into the statement classifications. The form should also offer enough space for symbols and notations of work done, cross references, and a clear identification of the statement groupings. If the client's trial balance is sequenced for easy grouping into statement classifications, pasting a copy of the trial balance onto formats similar to these illustrations may save preparation time.

Proponents of this alternative format believe that preparation of lead sheets requires excessive time and duplicates information on the working trial balance. Proponents of the lead sheet approach argue that benefits such as the following more than justify the preparation time:

- Lead sheets assemble working papers into groups that aid the review process and help staff see detail work in the context of the statements.
- Comparative features of lead sheets aid the analytical review process.
- Lead sheets offer a structure for delegating portions of the work to staff.

NOTES: (continued)

Lead sheets help avoid a cluttered "top summary" and thereby minimize the potential for clerical error.

The choice of format is the auditor's and should be based on his judgment about the most efficient way to structure the working papers for a particular engagement.

ABC Co.
Tax Return Worksheet - Reconciliation to Reported P&L (B)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Line Ref.	Per Tax Return — Classification	Amount for rtn	Schedule M-1 Adjs Increase	Schedule M-1 Adjs Decrease	Reported NI in rtn format	Net sales	Cost of sales	R&D Exp.	SG&A Exp.	Interest Exp.	Other	Prov. for Inc. Tax	
1	Gross sales												
	Less, returns & allowances												
	Net sales												
2	Cost of goods sold												
3	Gross profit												
4	Dividends												
5	Interest - obligations of U.S.												
6	Interest - other												
7	Gross rents												
8	Gross royalties												
9	(a) Capital gain												
	(b) Net gain or loss Form 4797												
10	Other income												
11	TOTAL INCOME												
12	Compensation of officers												
13	Salaries & wages												
14	Repairs												
15	Bad debts												
16	Rents												
17	Taxes												
18	Interest												
19	Contributions												
20	Amortization												
21	Depreciation												
22	Depletion												
23	Advertising												
24	Pension & profit sharing												
25	Employee benefit plans												
26	Other deductions												
27	TOTAL DEDUCTIONS												
28	TAXABLE INCOME												

NOTES:

(A) This sample working paper reconciles the amounts per line items on the return with the reported income statement, and where necessary, directly to the source working papers. All schedule M-1 items should also be explained on this page or an attached set of supporting pages, and referenced to the supporting working papers. In some situations, it may be necessary to prepare this type of schedule in further detail than that of the reported statement of income (or loss).

(B) Some auditors believe that this type of reconciliation should be prepared for all tax returns unless they are easily grouped from the trial balance or financial statements.

.130

ABC Company
Confirmation Control Sheet
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Description / Addressee	(1) First request	(2) Second request	(3) Additional requests	(4) Response received	(5) W.P. Ref of response
	Dates of				
Client's rep					
Attorneys letters					
John Doe, Esq.					
Brown & Jones					
Bank confirmations					
See attached list					
A/C Receivable					
See attached copies					
Other descriptions and addresses such as custodians of marketable securities and holders or trustees of long-term debt would be entered similar to the above.					

NOTE:

Some auditors prepare this type of control sheet to include all confirmations and representations requested. Others prepare it for the client's representation and attorneys letters and use tissue copies as the control for other requests until routine prompt responses have cleared. Then the addressees who have not responded promptly would be entered on this control sheet for special attention.

.140

ABC Company
Materials to be Prepared by Client
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Description	(1)	(2)	(3) Date promised	(4) Date received	(5) Effect on time? (Yes/No)
Working trial balance					
Bank reconciliations - 12/31 (copies)					
Standard bank confirms					
Accts. receivable - schedule of balances written off					
Accts. receivable - aged trial balance					
Inventory - copy of physical, priced, extended and summarized					
Inventory - standard cost work-up					
Prepaid insurance - analysis					
Property taxes analysed					
Property, plant & equipment					
Additions schedule					
Retirements schedule					
Analysis of asset accounts					
Analysis of accumulated depreciation					
Accounts payable listing					
Maintenance and repair expense					

NOTE:

The above materials are illustrative only, and in no way meant to be a comprehensive example of what materials may be prepared by clients.

.150

ABC Co.
Lead Schedule (Sheet) - General Example
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			12/31/X4	← 12/31/X5		→	
Client's A/C Code	Account	Title	Final Bal	Bal per Client	Adj. Dr.(Cr.)	as adjusted	W.P. Ref.

NOTES:

- This type of schedule may be prepared for any caption in the financial statements to show a comparative grouping of individual accounts, aid in analytical review at a detailed level, and provide a trail between the financial statement classifications, the client's accounts, and the detailed papers concerning the work done.
- Lead schedules may also include the preparer's conclusion on the results of the work done and notations on such matters as relationship with other accounts, and proposed adjustments, reclassifications and disclosure requirements. Some firms require that the lead sheet include the auditor's individual conclusions on the audit objectives, work done and resulting findings.
- This schedule can readily be modified to allow for two columns for adjustments, additional space for the account title, and additional columns for remarks.

.160

ABC Company
Cash - Lead Sheet
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Work paper Reference	Description	Account Number	Final Balance 12/31/X4	Per Books 12/31/X5	Adjusting Journal Entries Dr.	Adjusting Journal Entries Cr.	Adjusted Balance 12/31/X5	Reclassification Entries Dr.	Reclassification Entries Cr.	Final Balance 12/31/X5	
A-1	Petty Cash (A)										
A-2	Fifth National Bank (A)										
A-3	Sixth National Bank (B)										
A-4	Ninth State Bank - payroll A/C (B)										
A-5	Uptown Bank & Trust Co. (B)										
A-6	Downtown Bank & Trust Co. (B)										
A-7	Standard bank confirms A-7-1 (A) (B)										
A-8	Symbol legend - bank reconciliations (A) (C)										
A-9	Bank transfer schedule (A)										

NOTES:

(A) Illustrative working papers are present for pages A-1 A-2 A-7-1 A-8 and A-9 behind lead sheet.

(B) Illustrations are not present for pages A-3 A-4 A-5 A-6 A-7-2 A-7-3 A-7-4 and A-7-5.

(C) This symbol legend is located behind the reconciliation because the legend is on columns 9-16 of a 16-column spread sheet. This allows a reviewer to fold out the legend and see it as he looks at each reconciliation filed in front of it. If the papers are bound at the top of the page, and individual worksheets are spread to the right such as on 16-column paper, the legend may be set up so it folds out to the left. Then a reviewer can still see the legend as he looks at individual spread sheets.

A

.170

ABC Company
Petty Cash Count
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	(1)	(2)	(3) Wrapped	(4) Loose	(5) Total
Currency:					
$100.00					
50.00					
20.00					
10.00					
5.00					
1.00					
Coin:					
1.00					
.50					
.25					
.10					
.05					
.01					
Vouchers, Undeposited Checks, etc. (describe):					
Less-Receipts Subsequent to Cut-off (describe):					
Amount of Fund-As Counted					
(Overage)-Shortage					
Amount of Fund-Per Books					

Receipt

The above detailed items were counted in my presence and returned to me intact by [insert individual's name], representative of [insert auditor's firm name].

Date and Time ______________________ ______________________

Signature of Custodian

Cut-off Information: Last Recpt. No. Last Check No.

A-1

.180

ABC Company
Bank Reconciliation - Fifth National Bank
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	(5)	(6)	(7)	(8)
Balance per Bank				xxxxx C
Add-Deposits in Transit				
	Date per Client	Date per Bank		
	12/30	1/02	xxxx T	
	12/30	1/02	xxxx T	
	12/31	1/04	xxxx T	
				xxxxx
Less - Checks Outstanding				
	Check #	Date		
	988	12/10	xxx	
	995	12/24	xxx	
	1001	12/27	xxx	
	1008	12/31	xxx √	
	1009	12/31	xxxxx A-9	
	1010	12/31	xxxxx A-9	
			xxxxx	xxxx
Other Reconciling items				
Balance per Books 12/31/X5				xxx
				G/L T/B A

See symbol legend pg A-8

A-2

.190

STANDARD BANK CONFIRMATION INQUIRY
Approved 1966 by
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
and
BANK ADMINISTRATION INSTITUTE (FORMERLY NABAC)

ORIGINAL
To be mailed to accountant

December 28, 19X5

Your completion of the following report will be sincerely appreciated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. Kindly mail it in the enclosed stamped, addressed envelope *direct* to the accountant named below.

Report from

(Bank) Fifth National Bank
P.O. Box 31428
Downtown, NJ xxxxx

Yours truly, ABC Company
(ACCOUNT NAME PER BANK RECORDS)

By Charles Delta
Authorized Signature

Bank customer should check here if confirmation of bank balances only (item 1) is desired. ☐

NOTE—If the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the columnar headings below.

Accountant [Name of auditor]
[Address of auditor]

1. At the close of business on December 31, 19X5 our records showed the following balance(s) to the credit of the above named customer. In the event that we could readily ascertain whether there were any balances to the credit of the customer not designated in this request, the appropriate information is given below.

AMOUNT	ACCOUNT NAME	ACCOUNT NUMBER	Subject to Withdrawal by Check?	Interest Bearing? Give Rate
$ XXXX A-2	ABC Company	7806-8224	Yes	No

2. The customer was directly liable to us in respect of loans, acceptances, etc., at the close of business on that date in the total amount of $_______, as follows:

AMOUNT	DATE OF LOAN OR DISCOUNT	DUE DATE	INTEREST Rate	INTEREST Paid to	DESCRIPTION OF LIABILITY, COLLATERAL, SECURITY INTERESTS, LIENS, ENDORSERS, ETC.
$ XX,XXX	2/14/X4	2/14/X7	9%	12/31/X5	None

To N-1

3. The customer was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $ None, as below:

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

4. Other direct or contingent liabilities, open letters of credit, and relative collateral, were

None

5. Security agreements under the Uniform Commercial Code or any other agreements providing for restrictions, not noted above, were as follows (if officially recorded, indicate date and office in which filed):

None

Yours truly, (Bank) Fifth National Bank

Date January 5, 19X6

By J. P. Valid Asst. V.P.
Authorized Signature

Additional copies of this form are available from the American Institute of CPAs, 1211 Avenue of the Americas, New York, N. Y. 10036

Note: The confirmation response should be cross-referenced to all relevant working papers (in this example, to the bank reconciliation [page A-2] and notes payable [N-1]). The circled items should also be cross-referenced to indicate it was noted regarding working papers on commitments and contingencies. The bank should answer all questions. If some are not answered the bank should be called or written so the missing information can be obtained (in writing).

ABC Company
Cash - Symbol Legend for Bank Reconciliations (See Notes)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

NOTES:

(A) This legend is placed behind the reconciliations because it is on the fold-out portion of a 16-column spread sheet. This approach allows the reviewer to unfold the legend and see the symbols as he reviews each reconciliation working paper.

If the papers are fastened at the top and the pages are double with spread sheets that unfold to the right, the legend can be set up so that it unfolds to the left side or bottom of the page. Then a reviewer may still see the legend as he looks at individual spread sheets.

(B) In this example, no exceptions were noted. However, if any were present, a separate symbol and explanation cross-referencing to an exception listing would also be included in this legend.

(C) In this example, it is assumed that based on the auditor's study and evaluation of internal accounting control, the following steps were performed at a preliminary date and recorded elsewhere in the working papers:

(i) Preparation of proofs of cash to test total activity per the cash receipts and cash disbursements journal.

(ii) Comparison of entries per the cash disbursements journal to paid checks for date, number, payee, amount, and examination of check for proper signature and comparison of endorsement with identification of payee.

(iii) Accounting for all checks issued during a test month as paid, outstanding or void.

A-8

A - *To cash lead sheet*

W - *Footed, cross-footed*

C - *Confirmed by bank*

T/B - *Agreed to working trial balance*

G/L - *Agreed to general ledgers*

T - *Deposit in transit traced to Jan. XX, 19X6 cutoff bank statement and cash receipts book for amount and dates indicated, in-transit period appears reasonable.*

x - *Examined paid check returned with January XX, 19X6 cutoff bank statement; date check number and amount agrees with outstanding check list. Compared date, number, payee and amount per check to cash disbursements journal, found they agreed without exception* (B)

V - *Outstanding check not returned with bank cutoff statement. Compared date, check number and amount to cash disbursements journal and supporting voucher; compared payee and account distribution per cash disbursements journal to supporting voucher: found voucher properly approved and found items compared in agreement without exception.* (B)

.210

ABC Company
Bank Transfer Schedule
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Reviewed bank statements and cash receipts & disbursement journals from 12/XX/X5 to 1/YY/X6 for bank transfers of $XXX or larger. (A)

Check No.	Bank Accounts From	Bank Accounts To	Amount	Date disbursed per Books (B)	Date disbursed per Bank (C)		Date deposited per Book (B)	Date deposited per Bank (C)	
1010	5th Natl.	Downtown	xxxxx	12/31	1/05	A-2	12/31	1/02	T
1009	5th Natl.	9th State	xxxxx	12/31	1/04	A-2	12/31	1/02	T
5440	6th Natl.	Downtown	xxxx	1/03	1/04		1/03	1/06	
1040	Uptown	Downtown	xxxx	12/30	1/05	Ø	12/30	1/03	T

Ø - Should be cross-referenced to outstanding checklist of applicable bank reconciliations

T - Should be cross-referenced to deposit in transit per applicable bank reconciliation.

NOTES:

(A) The number of days before and after the balance sheet date selected for testing will depend on the auditor's study and evaluation of internal accounting control; the use of a minimum dollar amount in selecting transfers also depends on the auditor's judgment concerning materiality.

(B) Receipts and disbursements per books should be recorded in the same month.

(C) Any disbursements with bank statement dates that precede the dates per books should be investigated.

A-9

.220

ABC Company
Proof of Cash 9/30 - 12/31/X5
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) (Name of Bank) (2) (Bank A/C Number) (3)	(4) Recon. of balance 9/30/X5	(5) Activity 10/1-12/31 Receipts	(6) Disb.	(7) Recon. of balance 12/31/X5	(8)
Balances and activity per bank statements	xxxxx	xxxxx	(xxxxx)	xxxxx	
Deposits in transit					
9/30/X5	xxxx	(xxxx)			
12/31/X5		xxxxx		xxxxx	
Outstanding checks					
9/30/X5	(xxxx)		xxxx		
12/31/X5			(xxxxx)	(xxxxx)	
Other reconciling items					
(Describe)	xxx		(xxx)		
		xxx		xxx	
Per books	xxxxx	xxxxx	xxxxx	xxxxx	

NOTES:

- All columns and lines should foot and cross-foot; and there should be clear indications of the work done.
- Some find it helpful to prepare this analysis by (1) first entering the bank reconciliations of the opening and closing balances, (2) then identifying the deposits and disbursements per the bank statements and the client's cash receipts journal and cash disbursements journals, and (3) analyse and complete reconciliation of deposits and disbursements.
- See sections 5400.080 and 5400.100--.110, Illustrative Audit Objectives and Audit Procedures.

ABC Company

.230 Marketable Equity Securities, Cost, Market & Gross Unrealized Gains (Losses)

	Initials	Date
Prepared By		
Approved By		

(1) (2) Description	(3) No. of shares	(4) 12/31/X5 Cost	(5) Market value per share	(6) Market value (A) amt	(7) Gross unrealized Gain	(8) Gross unrealized (A) (Loss)
Current						
XYZ Corp 5% cum pfd	xxx	xxxxx	xx	xxxxx	xxxx	
UVW Co. 6% pfd	xxx	xxxx	xx	xxxx		(xxx)
Marx Corp com	xxx	xxxx	xx	xxxx	xxx	
		xxxxx		xxxxx	xxxx	
					(xxx)	(xxx)
Net unrealized gain					xxxx	
Carrying amount 12/31/X5		xxxxx				
Non Current						
Amalgamated Co com	xxxx	xxxxx	xx	xxxxx		(xxxx)
WXY Co. 8% cv pfd	xxxx	xxxxx	xx	xxxxx	xxx	
		xxxxx		xxxxx	xxx	(xxxx)
						xxx
Net unrealized loss		(xxxx)	∅			(xxxx)
Carrying amount 12/31/X5		xxxxx		xxxxx		

∅ Valuation allowance required

NOTE:

(A) The above columns for market value, gross unrealized gains and gross unrealized losses may also be worked into the marketable securities analysis (section 6500.240) if wider analysis paper is available. This would avoid the need to recopy or photocopy the descriptions, numbers of shares and costs for the above.

.240

ABC Company
Marketable Equity Securities - Analysis
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)(2) Description	(3) 12/31/X4 Number of Shares	(4) Balance Cost	(5) Additions Date	Additions No. of Shares	(6) Additions Cost	(7) Sales and Dispositions Date	Sales and Dispositions Shares	(8) Sales and Dispositions Cost	(9) Proceeds	(10) Realized Gain (Loss)	(11) 12/31/X5 No. of Shares	(12) Bal (A)	(13) Dividend Income (B) Accrued 12/31/X4	(14) Earned 19X5	(15) Collected 19X5	(16) Accrued 12/31/X5
Current																
XYZ Corp. 5% Cum Pfd	xxx	xxxxx									xxx	xxxxx	xxx	xxxx	xxxx	xxx
UVW Co. 8% Pfd	xxx	xxxxx				11/30	xxx	xxxx	xxxx	xxx	xxx	xxxx	xxx	xxxx	xxxx	xxx
Boxer Ind com	xxx	xxxx				9/15	xxx	xxxx	xxxx	(xxx)			xxx	xxx	xxx	
Marx Corp com			3/15	xxx	xxxx						xxx	xxxx		xxx	xxx	xxx
		xxxxx			xxxx			xxxx	xxxx	xxx		xxxxx	xxx	xxxx	xxxx	xxx
Non Current																
Amalgamated Co com	xxxx	xxxxx		xxx	xxxx						xxxx	xxxxx	xxx	xxxx	xxxx	xxx
WXY Co. 8% Cv Pfd	xxxx	xxxxx									xxxx	xxxxx	xxx	xxxx	xxxx	
		xxxxx			xxxx							xxxxx	xxx	xxxx	xxxx	xxx
Dividend income - accrued rec - per client													xxx	xxxx		xxx
Adjustment - accrued div re WXY Co. 8% Cv Pfd														xxx		xxx
Final 12/31/X5														xxxx		xxx

NOTES;

(A) The auditor may wish to use wider paper and insert the following additional columns between "12/31/X5 balance at cost" and the columns on dividend income:

- Market value per share
- Market value amount
- Gross unrealized gains
- Gross unrealized losses

(B) The dividend income analysis was included above so the auditor could refer to the timing of additions, sales and dispositions on the same page when checking dividends earned.

ABC Company

.250 Marketable Equity Securities - Valuation Allowances
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)–(4)	(5) Val allow 12/31/X4	(6) Dr or (Cr) to Net income (A)	(7) Dr or (Cr) to Stkhldrs equity (A)	(8) Val allow 12/31/X5
Current portfolio				
Market valuation	70000 Ø			75000 (B)
Cost	75000 Ø			72000 (B)
Net unrealized gain (loss)	(5000) Ø			3000 (B)
Val. allowance required	5000 Ø	(5000)		0
Non-current portfolio				
Market valuation	82000 Ø			81000 (B)
Cost	80000 Ø			82000 (B)
Net unrealized gain (loss)	2000 Ø			(1000) (B)
Val allowance required	-0- Ø		1000	1000

Ø - Per 12/31/X4 working papers

NOTES:

(A) See Statement of Financial Accounting Standards No. 12, paragraph 11 [AC section I89.105].

(B) This illustration uses summary captions rather than a listing of the individual securities in each portfolio on the assumption that amounts are cross-referenced to the related illustrative working papers on cost, market, & gross unrealized gains (losses); and analysis of balances and activity.

.260

ABC Company
Notes Receivable (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
										Principal				Related Interest		
Maker	(Endorser)	Date Made	Due	Original amount	Terms of repayment	Collateral		Interest rate	Balance 12/31/X4	Additions	Payments	Balance 12/31/X5	Accr Rec 12/31/X4	Earned 19X5	Rec'd 19/X5	Accr Rec 12/31/X5

NOTE:

(A) This analysis, with some minor modification (provision for market valuations, and analysis of premium or discount) may also be used for investments in marketable debt securities.

.270

ABC Company

Accounts Receivable - Lead Sheet

12/31/X5

	Initials	Date
Prepared By		
Approved By		

Work paper ref	Account titles (B)	Client's acct. no.	Final Bal. 12/31/X4	Per client 12/31/X5	A.J.Es Dr	A.J.Es Cr	Balance as adjusted (A) 12/31/X5	Remarks
	Trade accounts receivable, gross							
	Less allowances for							
	- Discounts							
	- Credits							
	subtotal							
	Less, allowance for doubtful accts.							
	Trade receivables, net							
	Other receivables:							
	(Describe individual accounts, if more practical, list them on a separate sheet as either page two of this lead sheet or as a separate lead sheet with a separate grouping of working papers)							
	Relationships - Sales and trade receivables							
	Gross sales,							
	Less: discounts							
	allowances							
	Net sales							
	Less: cash sales							
	Net account sales							
	Turnover ratios							

NOTES:

(A) This format may be expanded to show columns for reclassification entries.

(B) The account titles and other captions on this work sheet are also merely illustrative. Actual titles will depend on the circumstances of the engagement and the needs and preferences of the auditor.

ABC Co.

.280 Accts. Receivable - Confirm Statistics

12/31/X5

	Initials	Date
Prepared By		
Approved By		

	Number of Accounts		Dollars	
	Count	Percent	Amount	Percent
Confirm requests				
Positives				
Negatives				
Total sent				
Accts picked-client asked us not to confirm (A) (B)				
Total picked for testing	xxx(D)	yy(D)	xxxxxx(D)	zz(D)
Total accts rec at (insert confirm date)	aaaaaa	100%	aaaaaa	100%
RESULTS - replies received through (insert date)				
Positives - no exception				
Negatives - did not reply or reported no exceptions				
Differences reported & resolved as no exceptions				
Positive				
Negative				
Totals confirmed				
Unanswered positives and accts client asked us not to confirm (B)				
Total confirmed & tested				
Differences found to be potential adjustments				
Positive replies				
Negative replies				
Total (C)				
Totals selected for testing	xxx(D)	yy(D)	xxxxxx(D)	zz(D)

(A) See W.P. (ref_____) on accts client asked us not to confirm & disposition.

(B) See W.P. (ref_____) on alt means procedures and results.

(C) See W.P. (ref_____) on conclusions reached and proposed disp.

(D) These two lines present identical data for balancing purposes.

NOTE:

Comparative summaries of confirmation results in carryforward working papers may be informative and useful.

ABC Company

.290 Accts Receivable - Reconciliation from Confirmation Date to Year End

	Initials	Date
Prepared By		
Approved By		

12/31/X5

		(6)	(7)	(8)
Balance 11/30/X5, confirm date			xxxxxx	(A)
Add:	Sales	xxxxxx		
	Other (describe if any):	xxxx(D)		
		xxxx		
			xxxxxx	
			xxxxxx	
Deduct:	Cash receipts	xxxxxx(B)		
	Credit memos	xxxxx(C)		
	Other (describe if any):	xxxx(D)		
		xxxx		
			xxxxxx	
Balance per books 12/31/X5			xxxxxx	
Adjustments (describe if any):				
	Final balance		xxxxxx	

NOTES:

(A) Should be cross-referenced to working paper summarizing or scheduling total of subsidiary detail used for confirmation selections.

(B) Should be traced to source, such as sales journal and cash receipts journal.

(C) Depending on the circumstances, it may be necessary to segregate by such types of credits as adjustments of selling prices and returns of shipments.

(D) There are various possibilities. For example, the client may make adjustments based on the auditor's findings during preliminary work, or adjustments to resolve certain differences disclosed by the confirmation procedures.

ABC Co.

.300 Accts. Rec. - Review of Post Bal. Sheet Cr. Memos

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Name of Customer			Credit Memo Date No.	Amount	Description		

ILLUSTRATIVE COMMENT ON WORK DONE:

Reviewed sales journal for 1/1/X6 through (indicate date) and examined all credit memos of $XXX and over. Also reviewed file of unposted memoranda on (indicate date) and examined all credit memos of $XXX and over.

.310

ABC Company
Confirmation Control Sheet (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Confirm. Control No.	Name of Company			1st Request Date Sent	1st Request Date Received	2nd Request Date Sent	2nd Request Date Received

NOTE:

(A) There are various approaches to controlling confirmation procedures. Some auditors may use copies of the confirmation letters to control positive confirmation requests and use a symbol and legend on a schedule, tape or aging analysis to indicate balances selected for confirmation and the type of response received.

.320

ABC Company
Accts. Receivable - Aging Analysis (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Name of customer (B)	Total bal per sub. ledger	Current 1-30 days	Past Due 31-60 days	Past Due 61-90 days	Past Due Over 90 days	Remarks	Allowance needed (C) Explanation	Allowance needed (C) Amount
Aging Analysis Totals (B)								
Percentage analysis of aging	100%	xx%	xx%	xx%	xx%			

NOTES:

(A) This analysis is often prepared by clients for internal purposes. If practical, the auditor may save time by using a copy of the client's schedule for working paper purposes. The auditor may need to modify his (her) copy of the client's schedule by adding additional columns or pasting the copy on to a format similar to this illustration.

NOTES (continued)

(B) Depending on the circumstances (internal accounting control, relative number of customer accounts and ~~significance of individual balances) the auditor may~~ include any of the following in the working papers:

(i) copy of the complete aging analysis.
(ii) detail aging analysis of only those customer accounts with balances over a predetermined dollar amount and summary amounts for aging of accounts with balances equal to and lesser than the predetermined amount.
(iii) summary of the aging analysis totals and other schedules and narratives to describe detail testing.

(C) These columns are used when individual customer balances may be large enough in relation to the total receivables balance for review on a specific account basis to determine the need for allowances.

.330

ABC Company
Accounts Receivable - Other
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Due from	Explanation	Final bals. 12/31/X4	Balances 12/31/X5 Per client	AJEs Dr (Cr)	as adjusted
		(A)	(A)		
Describe individual components deemed significant enough for application of auditing procedures.					
	Subtotal				
Other (B)					
Total					

NOTES:

(A) The comparative columns are provided for review and explanation of fluctuations.

(B) Components which total to an amount believed not significant enough to merit audit attention may be grouped as one amount.

ABC Company

.340 *Allowance for Doubtful Accounts - Related Expense*

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)–(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Activity 19X5				
Description	Final Balance 12/31/X4	Prov. for Expense	Write offs	Recoveries	Bal 12/31/X5	
If there are significant individual components, describe or cross reference to a supporting paper that presents particulars.						
Totals per client	xxxxx	xxxxx	(xx xxx)	xxxx	xxxxx	
Adjustments: (describe)		xxxx			xxxx	
Final	xxxxx	xxxx	(xxxxx)	xxxx	xxxxx	

.350

ABC Company

Allowance for Doubtful Accounts, Provisions, Write Offs and Recoveries

Prepared By ____ Initials ____ Date ____
Approved By ____

Carryforward Analysis (A)

		19X0	19X1	19X2	19X3	19X4	19X5	19X6
1	Balance, beginning of year	xxxx						
2	Add: Provision	xxxx						
		xxxx						
3	Less: Balance, end of year	(xxxx)						
4	Net write offs for year	xxxx						
5	Add back recoveries restored to allowance (B)	xxx						
6	Gross write offs	xxxx						
7	Account (credit) sales for year	360000						
8 a	Trade accounts receivable	29000						
8 b	Trade notes receivable	1000						
8 c	Total trade accts. & notes receivable	30000						
9	Receivables turnover (line 7 divided by line 8c)	12						
10	Average collection period in days (360 divided by line 9) (C)	30 days						
11	Net write offs as % of acct. sales (line 4 divided by line 7)	xx%						
12	Allowance as % of receivables (line 3 divided by line 8c)	xx%						

NOTES:

(A) Depending on the circumstances, an auditor may find it useful to maintain continuing analysis of the allowance for doubtful accounts and related activity. For clients with a small number of significant trade accounts receivable, an auditor may decide it is more practical to review each balance individually and may consider this type of schedule as unnecessary.

(B) In this illustration, it is assumed that recoveries of accounts written off are restored to the allowance.

(C) A 360 day year was used in this illustration to simplify computations.

.360

ABC Company
Inventories - Lead Sheet
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) W.P. Ref	(2)–(3) Account title (B)	(4) Account No.	(5) Final 12/31/X4	(6) Per Client 12/31/X5	(7) Adjustments (A) Dr (Cr)	(8) as adjusted 12/31/X5
	Raw materials					
	Work in process					
	Finished goods					
	Supplies					
	Cost of sales	(C)				
	Ratios (describe)	(D)				

NOTES:

(A) This paper may be expanded for such purposes as providing additional columns for reclassifications, and using separate debit and credit columns for adjustments.

(B) These account titles might be far more complex than the above. Work-in-process accounts, for example, might be expanded to identify separate processes, departments or plants.

(C) It may be useful to also present data from related expense accounts and selected ratio analyses on the inventory lead sheet.

(D) Some firms require that the lead sheet also include the auditor's individual conclusions on the audit objectives, work done and resulting findings.

ABC Company

.370 Inventory - Analysis from Physical to Year End (A)

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)–(4)	(5) Raw Materials	(6) Work in Process	(7) Finished Goods	(8) Supplies
Balance per books 11/30/X5	xxxxxx	xxxxx	xxxxxx	xxxxx
Adjustment of books to physical (B)	xxxx	(xxxxx)	(xxxx	xxxx
Per physical 11/30/X5	xxxxxx	xxxxx	xxxxxx	xxxxx
December 19X5 activity				
Purchases-raw materials-supplies	xxxxxx			xxx
Requisitions-	(xxxxxx)	xxxxx		(xxxx)
Direct labor		xxxxxx		
Overhead		xxxxxx		
		xxxxxx		
Cost of goods manufactured		(xxxxxx)	xxxxxx	
			xxxxxx	
Cost of goods sold			(xxxxxx)	
Other (describe)				
Balance 12/31/X5	xxxxxx	xxxxx	xxxxxx	xxxxx

NOTES:

(A) This type of analysis will vary greatly with the circumstances. For example, some clients may use several general ledger accounts for production and inventory while others may have a small number of general ledger controlling accounts that are tied to a detailed cost accounting system. Other obvious variables include the following:

- Assumptions on the flow of cost (FIFO, LIFO, etc.).
- Method of cost accounting (process, job order, direct costing for internal reports and adjustment to absorbtion costing for external reporting, standard costs, retail method, etc.).

(B) Adjustment may be more complex than a simple difference between the book balances and the priced physical inventory. This may require a separate analysis of adjustments to the inventory per books and/or the physical.

.380

ABC Company

Inventory - Test Counts 11/30/X5 (A) (B) 12/31/X5

	Initials	Date
Prepared By		
Approved By		

Ticket No. or other ref. (B)	Location & Description (Part #) (B)	Count per Client	Count per Auditor	Difference test over (under) client
	Department A			
xxxx	xxxx xxxxxx	xx	xx	—
xxxx	xxxx xxxxxx	xx	xx	x
xxxx	xxxx xxxxxx	xx	xx	(x)
	Department B			
xxxx	xxxx xxxxxx	xxx	xxx	—
xxxx	xxxx xxxxxx	xxx	xxx	—

NOTES:

(A) The design of test count work sheets will depend on the circumstances and may vary extensively from the above which is assumed to involve simple unit counts. Other physical inventories, for example, may involve conversion of units to weight, surveys of volume with conversion to tonnage, or special techniques such as engineering surveys of volume, aerial photography, and chemical analyses.

(B) For each item, the location, reference, description and other data must provide sufficient detail for subsequent tracing of the auditor's test counts or observations into the client's compilation and summarization of its physical inventory. Accordingly, advance planning is extremely important in preparing for observation and testing of a client's physical inventory. Provision should be made for inclusion in the working papers of such information as number of tickets used, unused and voided, or the number of count sheets used.

.390

ABC Company
Inventory Price Test - Raw Materials (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Ref. to Physical (B)	Description (including part number)	Per Phys. Inventory Dollar Amt	Per Phys. Inventory Quantity	Per Phys. Inventory Unit Price	Name of Vendor	Price Test (C) Date	Price Test (C) Invoice or Vou No	Price Test (C) Quantity	Price Test (C) Unit price	Diff., test is over(under) phys.	Dollar effect of diff. on inventory	Remarks (D)
Recap of dollar coverage								Total differences (D)				
	Total dollars tested			$								
	Total dollar amount of raw materials inventory			100 $								

NOTES:

(A) The approach and resulting working papers for price testing will vary with the circumstances (for example, if ABC priced its inventory at standard costs, and/or used LIFO).

(B) This column provides for practical cross reference to the client's physical inventory as priced, extended and summarized. Examples include page numbers, ticket or tag numbers, etc.

(C) Prices for test purposes are from most recent invoices (including related shipping expense) for an appropriate quantity.

(D) Consideration of individual differences and their aggregate effect is a matter for the auditor's judgment in the circumstances. The auditor should be mindful of ARB No. 43, Chapt. 4 on inventory pricing. (AC section I78).

The next page is 6541.

Inventory Price Tests of Work-in-Process and Finished Goods—General Note on Working Papers

.400 The working paper formats for price tests of work-in-process and finished goods inventories will vary with the circumstances of individual engagements. Among the variables are the following:

- The client's particular industry and business.
- Cost accounting method (job order or process cost, use of standard costs, application of overhead costs, retail method).
- Assumptions about flow of costs (FIFO, LIFO, moving average).
- Other cost accounting matters such as allocation of costs to various products included in inventories.

Because of the many complex variables involved, sample working papers on price tests of work-in-process and finished goods inventory are not presented. However, the following possible column headings may be useful in considering working paper formats for price tests of specific items of work-in-process and finished goods inventory:

Part number or product code
Job order number
Description
Department or plant location
Quantity in inventory
Date produced (is it slow-moving or obsolete?)
Material cost
Labor cost
Overhead cost
Total cost
Unit cost
Inventory dollar amount
Status (stage of completion, process code no., etc.)
Recent actual job order cost
Recent process or standard unit cost
Recent actual selling price and gross profit percentage (is it adequate?)
Recent sales volume (is item slow-moving or obsolete?)

Depending on the circumstances, it may be more efficient to use copies of the client's analyses and prepare supplementary schedules rather than develop completely separate analysis formats.

.410

ABC Company
Prepaid Insurance and Related Expense (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Company	Pol No	Coverage Type	Coverage Amt	Coinsurance	Policy Date	Terms of Coverage From	Terms of Coverage To	Original Premium	Monthly Amortization	Ppd Ins. bal. 12/31/X4 (C)	19X5 Activity (B) Payments (refunds)	19X5 Activity (B) Insurance Expense	Ppd Ins. bal. 12/31/X5
								Totals					
								Adjustment (D)				(xxx)	xxx
								Final					

NOTES:

(A) The column headings of this analysis may also be those of the client's insurance register. It may be practical for the client to prepare this schedule as a time saver.

(B) If the schedule includes insurance costs that are expensed entirely in the year incurred, the column for insurance expense should support the balance in the client's insurance expense account(s).

(C) The opening balance would be the final balance per the preceding year's working papers.

(D) The adjustment(s) should be adequately explained. A symbol and footnote may suffice.

ABC Company

.420 Prepaid Insurance (Alternative Format)

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) (2) (3)	(4) Total A/C # XXX	(5) XYZ Fire Ins Co.	(6) XYZ Casualty Co.	(7) Blanket Insurance Co.	(8)
Policy numbers					
Coverages:					
Types					
Amount					
Book value of assets insured					
Terms of coverage					
From					
To					
Premium amount					
Monthly write-off					
Prepaid bal 12/31/X4					
Additions					
Expense					
Prepaid bal 12/31/X5					

.430

ABC Company
Property Taxes - Prepaid & Accrued (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
← Property →								Period	Covered	Final Bal	12/31/X4	19X5 Activity		Bal 12/31/X5	
Taxing Organization		Location & description			Assessed Value	Total Tax	Payment date	From	To	Prepaid	Accrued	Payments	Expense incurred (B)	Prepaid	Accrued

NOTES:

(A) This analysis may support prepaid expenses included among assets, accrued taxes included among liabilities and tax expenses. The auditor's preference determines whether this analysis is filed among papers on assets, liabilities or expenses. However, the amounts should be cross-referenced with their location in lead sheets that support all relevant statement groupings.

(B) The column for expenses incurred may include write-offs of prepaid amounts and provisions for amounts incurred but not yet paid. This will depend on the timing of the payment due dates and periods covered for each taxing organization.

.440

ABC Company
Prepaid expenses - other
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
	Acct No.	Description		Period covered From To	Bal 12/31/X4	Additions	Charges to expense	Bal 12/31/X5	
1									1
2									2
3									3
4									4
5									5
6									6
7									7
8									8
9									9
10									10
11									11
12									12
13									13
14									14
15									15
16									16
17									17
18									18
19									19
20									20
21									21
22									22
23									23
24									24
25									25
26									26
27									27
28									28
29									29
30									30
31									31
32									32
33									33
34									34
35									35
36									36
37									37
38									38
39									39
40									40

ABC Company
Deposits & Miscellaneous Current Assets
12/31/X5

.450

	Initials	Date
Prepared By		
Approved By		

(1) Client's Acct No.	(2)	(3) Description	(4)	(5) Final Bal. 12/31/X4	(6) Bal per client 12/31/X5	(7) Adjustments Dr (Cr)	(8) as adjusted 12/31/X5

NOTES:

The comparative format may aid in review of fluctuations at the detail level.

Symbols and legends may be used to indicate confirmation and/or other procedures applied, and as cross-references to explanatory notes if required, concerning individual balances or disposition of prior year balances.

.460 ABC Company
Property, Plant & Equipment, & Rel Depcn-Lead Analysis (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Classification	ASSETS (A) Final Bal 12/31/X4	Additions	Retirements & dispositions	Other Dr (Cr)	Bal 12/31/X5	W.P. Ref.	Depreciation method & life	Accumulated Depreciation-Amortization (A) Final Bal 12/31/X4	Additions	Retirements & dispositions	Other	Bal 12/31/X5	W.P. Ref
Land	xxxxx				xxxxx								
Buildings	xxxxxx				xxxxxx			xxxxx	xxxx			xxxxx	
Machinery & equipment	xxxxxx	xxxx	xxxx		xxxxxx			xxxxx	xxxx	xxxx		xxxxx	
Furniture & fixtures	xxxxx	xxx	xxx		xxxxx			xxxx	xxxx	xxx		xxxx	
Automobiles	xxxxx	xxxx	xxxx		xxxxx			xxxx	xxx	xxxx		xxxx	
Leasehold improvements	xxxx			(xxx)	xxxx								
	xxxxxx	xxxx	xxx	(xxx)	xxxxxx			xxxxx	xxxx	xxxx		xxxxx	
						Add: depreciation and amortization (if any) credited directly against the asset balance			xxx				
						Total depreciation & amortization			xxxx (B)				
						Depreciation & amortization distributed to:							
						Manufacturing costs			xxxx				
						Selling expense			xxx				
						Gen & administrative			xxx				
									xxxx (B)				

NOTES:

(A) Some auditors may prefer to split this information into two analyses, ie: (1) property plant & equipment asset accounts, and (2) Accumulated depreciation. Some auditors may also expand the analysis to show separate line items for various depreciable lives.

This lead analysis, in addition to supporting the financial statements, can be tailored to group information needed if the client is required to file reports with regulatory agencies.

(B) This information on distribution of depreciation and amortization could be shown elsewhere in other working papers with only a cross-reference shown here.

.470

ABC Company
Property Plant & Equipment - Additions (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Date	Ref	Vendor	Description	Depreciable Life	Cost	Not eligible	Analysis for Investment Credit by Depreciable Life (C): Total eligible	New Eligible Property: 7 or more	New Eligible Property: 5 to under 7	New Eligible Property: 3 to under 5	Used Eligible Property: 7 or more	Used Eligible Property: 5 to under 7	Used Eligible Property: 3 to under 5
		Describe individual additions including whether item is new or used (B)											
		Subtotal, additions of over XXX each											
		Other, each of XXX or less											
		Total additions (B)											
		Analysis for investment credit (C):											
		Deduct excess of used property over limitation (C)									( )	( )	( )
		Fraction for qualified portion							X2/3	X1/3		X2/3	X1/3
		Qualified amounts (C)											

NOTES:

(A) This illustration is assumed to support a particular category such as machinery and equipment which may include property that qualifies for an investment tax credit. Some auditors may prefer to group all additions on one schedule and use analysis columns to segregate amounts into such classifications as land, buildings, machinery and equipment. Then a separate analysis may be prepared concerning additions which qualify for the investment tax credit.

(B) Depending on the circumstances, an auditor may have all additions listed or select a minimum dollar amount and have only those additions over that amount listed.

(C) Auditors should carefully consider applicable income tax requirements.

.480 ABC Company

Property Plant - Equipment - Retirements & Dispositions

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Date sold disposed	Classification & Description			Date acquired	Depreciation Method	Life	Cost	Accum. depre-ciation	Net carrying value	Proceeds of disp.	Net gain or loss	See	note		

NOTE:

The auditor may find it useful to use additional analysis columns to aid in such matters as tax return preparation. For example, columns may be used to distinguish ordinary and capital gains and losses, and to identify recapture, if any, of depreciation and/or investment tax credits.

.490

ABC Company
Intangible Assets
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) (2) Description	(3) Balance 12/31/X4	(4) Additions at cost	(5) Deductions Charged to P&L	(6) Deductions Charged to other A/Cs	(7) Other Additions (Deductions)	(8) Balance 12/31/X5
Describe significant individual components.						

NOTE: This type of analysis might be arranged as follows for carryforward purposes:

	Total intangibles	Organization Costs	Goodwill acq - XYZ Co.	Goodwill acq - DEF Co.
Date incurred		12/31/X2	5/30/X3	4/1/X4
Amortizable life		60 months	10 years	40 years
Orig Cost incurred		xxxx	xxxxx	xxxx
Monthly charge		xx	xxx	xx
Annual charge		xxx	xxxx	xxx
Balance 12/31/X2	xxxx	xxxx		
Additions	xxxxx		xxxxx	
Amortization	xxxx	xxx	xxxx	
Bal 12/31/X3	xxxxx	xxxx	xxxxx	
Additions	xxxx			xxxx
Amortization	xxxx	xxx	xxxx	xxx
Bal 12/31/X4	xxxxx	xxxx	xxxxx	xxxx
Additions				
Amortization	xxxxx	xxx	xxxx	xxx
Bal 12/31/X5	xxxxx	xxxx	xxxxx	xxxx

ABC Company

.500 Accounts Payable Lead Sheet

	Initials	Date
Prepared By		
Approved By		

(1) Client's acct. no. or code	(2)–(3) Acct title	(4) Final bal 12/31/X4	(5) 12/31/X5 Per client	(6) 12/31/X5 AJEs (Dr) Cr	(7) 12/31/X5 as adjusted	(8) W.P. Ref.
	Trade accts payable					
	(If comprised of a group of general ledger account balances, list the individual accounts to show how they group to the total for trade accounts payable.)					
	Other current payables					
	(It may be practical to include the groupings general ledger accounts for other current payables on the same lead sheet, especially if consideration is given to showing one balance sheet classification for trade and other accounts payable.)					

.510

ABC Company
Trade Accounts Payable - Schedule (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Source: .... Note (B)

Vendor	Balance 12/31/X5	Remarks
XYZ Corp	xxxx	(D)
TUV Industries	xxx	
P&Q Company	xxxx	
L and Sons	xxx	
John Doe Mfg	xxxx	
Other, each under xxx dollars (NOTE (C))	xxxx	
Total	xxxx	

NOTES:

(A) Many auditors believe this schedule should be prepared by the client and would have a staff auditor prepare this listing only as a last resort. However, some auditors, depending on their study and evaluation of internal accounting control, may believe this type of schedule need not be included in their working papers.

(B) This schedule should include indication of where the detail was obtained, for example, "per voucher register." In some instances, it may be a carbon or photocopy of the client's own year end tabulation of trade payables.

(C) This type of schedule may include all trade payables as of the balance sheet date or only those over a given amount selected by the auditor.

(D) A symbol and explanation may be used to identify amounts subjected to examination of supporting evidence and/or confirmation procedures (See Audit Approach and Programs, section 5400.280 regarding confirmation of accounts payable).

.520

ABC Company
Unrecorded Liabilities Test
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) Check No Vou No or Other Ref	(2)	(3) Vendor	(4) Date Received	(5)	(6) Description	(7)	(8) Account code charged	(9) Amount affects P&L	(10) Bal sheet	(11)	(12) Desposition	(13)	(14)	(15)	(16)

NOTES:

- This working paper should indicate the particular period selected and records examined in the search for unrecorded liabilities, for example, cash disbursements book and voucher register for 1/2/X6-1/31/X6. The period selected will vary with the circumstances, for example, effectiveness of client's internal control, billing pattern of client's vendors (do they bill quickly or slowly after delivery of goods or services) and whether other audit procedures such as confirmation of payables are to be used.
- If amounts selected are subject to a minimum amount(s), this should also be indicated on this working paper, for example, "selected all items of $XXX or over," or "selected all items of $100 for 1/1-1/10, all items of $500 and over for 1/11-1/20 and all items of $1000 and over from 1/20 to date of audit report."

.530

ABC Company
Accounts Payable - Confirmation Differences
12/31/X3

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
								← Analysis of confirm difference →							
W.P. Ref	Vendor				Balance per Books	Balance per Confirm	Confirm over (under) books	Unrecorded Liab	Payment in transit	Shipment in transit	Discount taken	Other	Remarks		

.540

ABC Company
Miscellaneous Current Liabilities
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Acct. No.	Description	Balance 12/31/X4	Balance 12/31/X5	Remarks

NOTE:

Depending on materiality and the study and evaluation of internal accounting control, the auditor may limit work to review of comparative amounts. Generally, the auditor's concern relates to searching for unrecorded liabilities.

.550

DEF Company
Dividends Payable
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	Preferred (A)	Common (A)
Final bal 12/31/X4		
Add: Declarations (Describe including reference to minutes & applicable number of shares per working papers on capital stock) (B)		
Total declared		
Less: Payments (Describe including testing of payments) (B)		
Total paid		
Balance 12/31/X5		

NOTES:

(A) This illustration assumes that the client has only one class each of preferred and common stock. The analysis columns may be expanded if more classes of capital stock are present. However, if the timing of the dividend declarations and payment dates results in no year end liability for unpaid dividends, the testing shown on this working paper may appear in an analysis of retained earnings, and this paper would be unnecessary.

(B) If the auditor prefers, the detail of individual dividends declared may be presented in an analysis of retained earnings with a cross reference of unpaid dividends to a recap or lead sheet concerning other payables.

.560

ABC Company
Liability for Payroll Taxes Withheld
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) Client's Acct	(2)–(3) Description	(4) Final Bal 12/31/X4	(5) Bal per client 12/31/X5	(6) AJEs Incr. (Decr.)	(7) Bal as adjusted 12/31/X5	(8)
	Federal income tax					
	FICA					
	State income tax					
	Other (describe)					

NOTE:

Depending on the auditor's study and evaluation of internal accounting control, these balances may be tested by reference to subsequent payments and related payroll tax returns, and by analytical review procedures.

.570

ABC Company
Accrued Payroll Taxes
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) Client's Acct Code	(2)–(3) Description	(4) Final Bal 12/31/X4	(5) Bal client 12/31/X5	(6) AJEs Increase [Decrease]	(7) Bal as adjusted 12/31/X5	(8)
	FICA - employer's share					
	FUI					
	SUT					
	Other (describe)					

NOTE:

Depending on the auditor's study and evaluation of internal accounting control, these balances may be tested by reference to subsequent payments and related payroll tax returns, and by analytical review procedures.

.580

ABC Company
Accrued Payroll
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)–(4)	(5)	(6)	(7) Components of Accrual (A)	(8)
TEST				
Total payroll week ended Fri 12/28, paid 1/3		100%	xxxxx	
Total payroll week ended Fri 1/4 paid 1/9		xxxxx		
12/29-12/31	2 days	33%	xxxx	
1/1-1/4	4 days	67%		
(12/30=Sunday - Sundays paid separately if worked per Union Contract & company pol)				
Amount per test			xxxxx	
Amount per client			xxxxx	(B)
Difference				(B)

NOTES:

(A) Depending on circumstances, the auditor may find it practical to expand this column to an analysis by components, for example, production wages, office salaries and officers salaries.

(B) The auditor may also wish to note on this working paper the accrual as of the prior year end and comment on fluctuation if significant.

.590

ABC Company
Accruals - Other
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1) Client's Title or description			(4) W.P. Ref	(5) 12/31/X4 Final	(6) 12/31/X5 Per Client	(7) 12/31/X5 AJEs Incr(Decr)	(8) Bal as adjusted
	Property taxes		(A)				
	Other, describe		(B)				

NOTES:

(A) Accrued property taxes should be cross-referenced to the working paper on "Property Taxes-Prepaid & Accrued." See section 6500.430.

(B) The auditor may evaluate the significance or relative immateriality of other accruals and then decide whether to limit work to inquiry of the client and analytical review, or to perform additional tests.

.600

ABC Company
Debt - Notes Payable & Related Interest (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Description (B)					Principal (C, D)					Related Interest					
Orig. date	Type of debt	maturity	Face Amt	Interest rate	Bal 12/31/X4	Additions	Payments	Bal 12/31/X5	Current Portion 12/31/X5	Final Bal 12/31/X4 Accr Int	Final Bal 12/31/X4 Prem (Disc)	Interest Expense	Interest paid	Bal 12/31/X5 Accr Int	Bal 12/31/X5 Prem (Disc)

NOTES:

(A) This analysis illustrates how the activity and balances of principal and related interest can be presented on the same working paper. This approach may result in more effective working paper presentation of the analysis and testing performed and expedite review. It may be practical to prepare separate ~~analyses for each broad category of debt such as notes payable,~~ collateralized long term debt, debenture bonds, capitalized leases, etc.

(B) The description should include the type of debt, face amount, stated interest rate, payment terms, maturity date, collateral, if any, and original discount or premium, if any. If the description requires too much space, some of it may be continued on attached sheets.

(C) In some instances, long term debt may be administered by a trust company or institutional lender and be combined with a restrictive indenture and a predetermined payment schedule for principal and interest. In such instances, a copy of the payment schedule and indenture may serve as carryforward (or permanent file) working papers, and the principal columns on this schedule restricted to the year end balance which would be positively confirmed. The columns for interest and discount or premium and the description would be retained.

NOTES (continued)

(D) Depending on the circumstances, the following additional information may be needed:

- Amount authorized by the indenture
- Amount issued and not retired or cancelled
- ~~Amounts held by the client~~
- Amounts held in sinking funds
- Amounts held by affiliates (consolidated and/or unconsolidated)

.610

XYZ Company
Debt - Summary of Assets Pledged
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Description of Asset	Creditor & description	Liability Bal 12/31/X5	Book val of asset 12/31/X5
Accounts receivable	NOP Factors 3/15/X5 Financing agreement	xxxxx	xxxxx
Inventory-finished goods	NOP Factors 4/15/X5 Financing agreement	xxxxx	xxxxx
Property, plant-equip 10 milling machines	LMN Mfg Corp 2/28/X4 conditional sales agreement-last payment due 1/31/X9	xxxxx	xxxxx
Building #3	PQ Life Insurance Co 4/1/X2 Mortgage Note matures 3/31/Y9	xxxxxx	xxxxxx
Fire Insurance - XYZ Insurance Co Policy 11/15/X5-11/15/X6	TUV Brokerage and Finance Corp Note payable	xxxx	xxxx

.620 ABC Company
Federal (State) Income Taxes-Accrued & Provided (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	Acct Totals	Current year 19X5	19X4	Prior 19X3	open years (B) 19X2	19X1	19X0
Accrued payable 12/31/X4							
(Refundable) 12/31/X4 (C)							
Payments and/or (recoveries) in 19X5							
Itemize and describe individual cash transactions (D)							
Provision - current year (E)							
Accrued payable 12/31/X5 (F)							
Deferred taxes (G)							

NOTES:

(A) This type of analysis may be prepared separately for federal income taxes and state and local income taxes or depending on the circumstances, federal and state income taxes may be presented on a single spread analysis.

(B) This illustration assumes that several prior years are still ~~open and provides individual columns as a means for matching each~~ transactions with related provisions for each open year.

(C) A separate line item for refundable taxes is provided to segregate those amounts from taxes payable.

(D) Details of individual payments including date, description and amount should be shown separately because of the compliance implications in the timing and amounts of payments.

(E) Generally, development of the current year's provision involves enough detail to require a separate working paper cross-referenced to this type of account analysis.

NOTES (continued)

(F) In some circumstances, the auditor may prepare (or obtain from the client) this type of analysis through a preliminary date and after testing and review with the client, the schedule may be subsequently brought forward to the year end date.

(G) Deferred taxes are included in sample working papers at section 6500.640.

.630

ABC Company
Provision for Federal (State) Income Taxes
12/31/X5

	Initials	Date
Prepared By		
Approved By		

	(1)–(8)	(9) Federal income tax: For current ret.	(10) Federal income tax: Timing differences: Amt	(11) Federal income tax: Timing differences: Tax effect	(12)	(13) State income tax: For current ret.	(14) State income tax: Timing differences: Amt	(15) State income tax: Timing differences: Tax effect	(16)
Income before federal and state income taxes, per books									
Add and/or (Deduct) interperiod timing differences									
(Describe individually and cross reference to working papers that provide sources of data and further determination of deferred tax provisions and related balance sheet classifications.)									
Add and/or (Deduct) permanent differences									
(Describe specifically and cross reference to source working papers. For some situations such as tax exempt municipal bond interest, state and local income tax requirements may differ from those for federal income taxes.)									
Estimated taxable income - state-local									
Less: provisions for state-local income taxes									
Estimated taxable income - federal									
Tax computations									
Estimated tax provision									

.640

ABC Company
Deferred Income Taxes & Timing Differences (A)
(Carryforward)

	Initials	Date
Prepared By		
Approved By		

Timing differences and Deferred Tax	Eff tax rate used for provision	Totals: Timing diffs. (B)	Totals: Deferred taxes Cr(Dr) (B)	Component analysis: Depreciation Timing diff.	Depreciation Def taxes	Warranty Allow. Timing diff.	Warranty Allow. Def taxes	Long term contracts Timing diff.	Long term contracts Def taxes
19X0 - Current year-timing differences		xxxxx		xxxxx		(xxxxx)		xxxxx	
Deferred tax provision	xx%		xxxxx		xxxxx		(xxxxx)		xxxxx
12/31/X0 - Cumulative timing differences		xxxxx		xxxxx		(xxxxx)		xxxxx	
Deferred tax credit or (charge)			xxxxx		xxxxx		(xxxx)		xxxxx
19X1 - Current year - timing differences		xxxxx		xxxxx		(xxxxx)		xxxxx	
Deferred tax provision	xx%		xxxxx		xxxxx		(xxxxx)		xxxxx
12/30/X1 - Cumulative - timing differences		xxxxx		xxxxx		(xxxxx)		xxxxx	
Deferred tax credit (charge)			xxxxx		xxxxx		(xxxxx)		xxxxx
19X2 - Current year - timing differences		xxxxx		xxxxx		(xxx)		xxxxx	
Deferred tax provision	xx%		xxxxx		xxxxx		(xxx)		xxxxx
12/30/X2 - Cumulative - timing differences		xxxxx		xxxx		(xxxx)		xxxxx	
Deferred tax credit (charge)			xxxxx		xxxxx		(xxxx)		xxxxx

NOTES:

(A) This type of analysis may be set up in various ways. For example, the timing differences could be shown on the top half of the page, or separate pages could be used for timing differences and analysis of the deferred tax provisions and balance sheet effects.

(B) Depending on the circumstances the auditor may expand this analysis to distinguish between current and non-current amounts of the deferred tax credit or charge.

.650

ABC Company

Contingent Liabilities and Commitments Other Than Leases

12/31/X5

	Initials	Date
Prepared By		
Approved By		

W.P. Ref. (B)	Classification and Description (A)	Amount	Disposition (C)

NOTES:

(A) See SAS No. 12, paragraphs 5-7 on audit procedures regarding litigation, claims and assessments. Also see SAS No. 19 on Client Representations.

(B) Working paper references may include those on review of minutes, standard bank confirmations, review of agreements and contracts, review of legal fees, inquiries of management and lawyers' letters.

(C) Disposition column may include reference to footnote disclosure, inclusion in the client representation, and, if necessary, the item's effect on the auditor's report.

ABC Company

.660 Capital Stock & Additional Pd in Capital-Analysis

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Capital stock, par val X per share				Additional paid in capital
			Auth No. of shares XXXXX				
			No. of shares issued	Amount	No. of shs held in treasury	Cost of treas. stock	
Balance 12/31/X4							
Describe individual transactions and cross-reference to authorization per minutes or per such agreements as options and/or warrants.							
Balance 12/31/X5							

NOTES:

It may be helpful to prepare this type of analysis as a carryforward working paper.

If several classes of capital stock are present, the analysis can be prepared on wider columnar paper to use the additional columns for the various classes of stock.

.670

ABC Company
Capital Stock - Certificate Book Examination
(Carry Forward)

	Initials	Date
Prepared By		
Approved By		

Exam: Done by	Exam: Date	Unissued Ctf Nos. From-To	Name to whom issued	Certificate Issued: Ctf No.	Certificate Issued: Date issued	Certificate Issued: No. of shares	Ctfs retired or transferred: Date ret or trfd	Ctfs retired or transferred: No. of shares	Ctfs retired or transferred: Ctf no. of new shares	Number of shares outstanding per ctf. book: 12/31/X0	12/31/X1	12/31/X2, X3, X4	12/31/X5, X6	
			Albert Able	1	3/15/X0	500	5/30/X5	500	5 & 6	500	500	500		
			Bartholomew Baker	2	3/15/X0	500	10/31/X5	500	8 & 9	500	500	500		
WCF	1/15/X1	3 - 100	Re 12/31/X0							1000				
			Carlton P. Charlie	3	4/1/X1	250					250	250	250	
WCF	1/5/X2	4 - 100	Re 12/31/X1								1250			
			Carlton P. Charlie	4	12/30/X2	250						250	250	
JD	1/10/X3	5 - 100	Re 12/31/X2									1500		
RR	1/12/X4	5 - 100	Re 12/31/X3									1500		
RR	1/3/X5	5 - 100	Re 12/31/X4									1500		
			Francine P. Able	5	5/30/X5	100							100	
			Albert Able	6	5/30/X5	400							400	
			Godfrey Delta	7	9/2/X5	100							100	
			Mary Baker	8	10/31/X5	100							100	
			Bartholomew Baker	9	10/31/X5	400							400	
ES	1/2/X6	10 - 100	Re 12/31/X5										1600	
ES	1/4/X7	10 - 100	Re 12/31/X6										1600	

.680

ABC Company
Retained Earnings - Analysis
(Carryforward)

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3) 19X0	(4) 19X1	(5) 19X2	(6) 19X3	(7) 19X4	(8) 19X5
Balance, beginning of year							
Net income for year							
Dividends declared and paid: (Describe) (A)							
Balance, end of year							

NOTE:

(A) If more than one class of stock is present; segregate dividends into groups according to each class of stock.

Revenue and Expense Working Papers—General Note

.690 Working papers on revenue and expense accounts would include comparative lead sheets for each income statement classification. Expenses such as depreciation, insurance, interest, and the provision for doubtful accounts would be cross-referenced to related analyses included among working papers concerning the balance sheet classifications.

The auditor, after considering his evaluation of internal accounting control, may decide that analytical review procedures (see SAS No. 23) and substantive tests of balance sheet accounts (including related income and expense effects) provide enough evidence to avoid the need for detailed analysis of most individual revenue and expense accounts. Some revenue and expense accounts, however, are ordinarily analyzed and tested because of the following:

- Identification of possible disclosure matters (especially lawyers' billings).
- Information needed for preparation of tax returns and other reports.
- Generalized titles that make accounts subject to misclassifications and errors.

Accounts requiring separate analysis generally are:

Legal expenses and other professional fees
Maintenance and repairs
Travel and entertainment
Officers' salaries and expenses
Taxes, licenses and fees
Rents and royalties
Contributions
Advertising

For timesaving purposes, the auditor may request the client to prepare analyses of these accounts and to assemble the related vouchers and other supporting documents.

.700

ABC Company
Legal Expense
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Name of lawyer or law firm			Description of matter			Date of billing	Amount
		Total 19X5					
		Total 19X4					

NOTES:

- Descriptions should be related (referenced) to such other working papers as contingencies and commitments and management representations.
- The final amount from the preceding year may be useful for comparison purposes. A significant fluctuation should be explained.
- A similar working paper format may be used for other professional fees.

.710

ABC Company
Maintenance & Repairs Expense
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Date	Check or Vou. No.	Vendor	Description	Amount
	Subtotal, details requested (A)			
	All other, each of which is under $XXX (A)			
	Total			
	Memo - final total 12/31/X4 (B)			

NOTES:

(A) The auditor may decide to limit testing to items over a certain dollar amount, based on the client's capitalization policy, rather than all components of the account. If so, the limits should be indicated.

(B) The final amount for the preceding year may be useful for comparison purposes. A significant fluctuation should be explained.

ABC Company

.720 Officers Salaries and Expense

12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Name of officer and position		Social security no.	Time devoted to business	Percent of corp. stock owned Common	Preferred	Amount of compensa.	Expense account allowance
		Total					
		Final amount 19X4*					

* The final amount from the preceding year may be useful for comparison purposes. A significant fluctuation should be explained.

ABC Company
Taxes, Licenses and Fees
12/31/X5

.730

	Initials	Date
Prepared By		
Approved By		

(1)–(4)	(5) 19X4	(6) 19X5	(7)	(8)
State and local income taxes				
(Relate to balance sheet analysis working papers on income taxes accrued and provided, or provide details)				
Property taxes				
(Relate to balance sheet analysis working papers on property taxes prepaid and accrued, or provide details)				
Payroll taxes				
FICA				
SUI				
FUI				
(Relate to balance sheet analysis working papers on payroll taxes accrued, or provide details)				
Other taxes, licenses and fees				
(Describe in detail)				
Totals				

.740

ABC Company
Rents and Royalties (A)
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			19X4	←	19X5	→	
			Final as reported (B)	Per client	AJEs Incr(Decr)	as adjusted	W.P. Ref
Rents							
(Describe and cross-reference to working papers on the underlying leases.)							
Royalties							
(Describe and cross-reference to working papers on the underlying royalties.)							

NOTES:

(A) Separate schedules may be prepared for rents, and for royalties if more practical.

(B) If the fluctuation between the current and preceding year is significant, it should be explained.

.750

ABC Company
Interest Expense Recap
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
W.P. Ref. (A)	Description (A)			Final 19X4	Per client 19X5	AJEs incr (decr)	as adjusted 19X5
	Notes payable						
	Long term debt						
	Capitalized leases						
	Other (describe) (B)						
	Total			(B)			

NOTES:

(A) Generally, the significant components of interest expense should be totals cross-referenced from applicable balance sheet analyses of the underlying debt and its related interest accruals and expense.

(B) If the difference between amounts for the current and preceding year are significant, they should be explained.

.760

ABC Company
Other Income
12/31/X5

	Initials	Date
Prepared By		
Approved By		

Date	Received From	Description	Amount

.770

ABC Company
Other Expense
12/31/X5

	Initials	Date
Prepared By		
Approved By		

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Date	Payee		Description				Amount

AAM Section 7000

CORRESPONDENCE, CONFIRMATIONS & REPRESENTATIONS

These samples are presented for illustrative purposes only. They are intended as mere conveniences for users of this Manual who may want points of departure when designing their own formats to meet their individual needs. These illustrations are neither all inclusive nor are they prescribed minimums. Auditors and accountants are to rely on professional standards and their individual professional judgment in determining what may be needed in the circumstances.

TABLE OF CONTENTS

Section		Paragraph
7100	Control of Confirmations and Correspondence...	.01-.07
7200	Requests for Confirmations and Related Materials..	.01-.23
	Wording of Confirmation Request Forms...........	.01-.02
	Request for Bank Cutoff Statements..............	.03
	Standard Bank Confirmation Inquiry.............	.04
	Request for Confirmation of Petty Cash Fund and Advances to Employees	.05
	Securities and Cash in Custodian or Trust Accounts...	.06
	Securities Held by Brokers	.07
	Sample Receipts for Return of Cash or Securities Counted by Auditor's Representative, and Cutoff Bank Statements Received Directly by the Auditors..	.08
	Accounts Receivable—Positive	.09
	Accounts Receivable—Negative	.10
	Notes Receivable	.11
	Inventories Held by Warehouses or Others When Listing Is Not Provided by Client................	.12
	Inventories Held by Warehouses or Others When Listing Is Provided by Client....................	.13
	Standard Confirmation Inquiry for Life Insurance Policies	.14
	Pension Plan Actuarial Cost Information...........	.15
	Pension Plan Assets Held by Trustee..............	.16

Section		Paragraph
7200	Requests for Confirmations and Related Materials—Continued	
	Notes Payable	.17
	Mortgage Debt	.18
	Accounts Payable	.19
	Obligation to Lessor	.20
	Property Out on Lease	.21
	Registrar—Capital Stock	.22
	Transfer Agent—Capital Stock	.23
	Request for Confirmation of Money Market Fund	.24
7300	Inquiries to Legal Counsel	.01-.03
	Illustrative Inquiry Letter to Legal Counsel	.01
	Illustrative Inquiry Letter to Legal Counsel If Management Has Not Provided Details About Pending or Threatened Litigation	.02
	Improving Inquiry Techniques	.03
7400	Representation Letters	.01-.02
	Illustrative Representation Letter—Examination of Financial Statements	.01
	Illustrative Representation Letter—Review of Financial Statements	.02
	Illustrative Representation Letter—Personal Financial Statements (compilation, review or examination)	.03

The next page is 7101.

AAM Section 7100

Control of Confirmations and Correspondence

.01 Generally, clients prepare correspondence and confirmation requests on their own letterheads and submit the signed originals and copies needed to the auditor. The auditor may obtain one or more copies to serve as file copies for the current working papers, second requests and manuscript copies for the next engagement.

.02 The auditor should review the confirmation requests to the extent he considers necessary. For example, the auditor may perform the following for accounts receivable confirmation requests before they are mailed:

- Compare the customer names and addresses to the client's records.
- Compare balances per confirmation requests to the subsidiary ledger.

.03 The requests would then be stuffed in envelopes and submitted to the post office under the auditor's control.

.04 The auditor controls the mailings and receipt of responses so that the confirmation process is independent of the client.

.05 Mailing envelopes have the auditor's office or post office box number as the return address so that undeliverable letters are returned to the auditor and not to the client. For mailings, the auditor may provide the envelopes or affix a label on the client's envelope that covers the client's return address and replaces it with the auditor's address.

.06 Reply envelopes addressed to the auditor are enclosed with the request letter. Reply envelopes generally have prepaid postage to encourage responses. Some auditors also use codes on the reply envelopes so that responses may be sorted by engagement before the mail is opened. This feature may be particularly useful when there are several engagements that involve voluminous mailings.

.07 If the client objects to use of the auditor's name and address, some auditors suggest that a post office box in the client's name be used, with the returns to be opened under the auditor's control for the confirmation process, and that the post office be instructed that after the box is closed subsequent mail be forwarded to the auditor.

The next page is 7201.

AAM Section 7200

Requests for Confirmations and Related Materials

Wording of Confirmation Request Forms

.01 Forms and correspondence used for confirmation requests should state clearly that the client is requesting a reply be sent to the CPA. Forms and correspondence used for information requests for engagements other than audits should not refer to "an examination." They should also use the term "accountant(s)" rather than "auditors." Suggested wording follows:

> Please send the following information to our professional accountants (insert name and address of accountants) who are performing services for the company.

.02 The samples of correspondence in this section include language that refers to auditors and an examination of the client's financial statements on the assumption that an audit is being performed. This language needs to be modified if services other than an audit are being performed.

.03 Request for Bank Cutoff Statements

(Prepared on client's letterhead)

(Date) [Note (A) below]

(Name of Bank)
(Address)

Dear .... :

Please send the following information directly to our auditors (insert name and address of auditors) who are performing their regular examination of our financial statements [Note (B) below] as of the close of business (insert date):

1. The information requested on the enclosed standard bank confirmation inquiry form(s)
2. Statement(s) of our account(s) and the related paid checks for the period from (insert date) to (insert date) inclusive. (Give name and bank account number for each bank account)
3. [Note(C)]

Very truly yours,

(Name of client)
(Signature and title of authorized officer)

NOTES TO USER:

(A) The request should be sent at least ten days prior to the audit date so the bank will be able to provide the information requested and to render the cutoff statements as requested. If the request does not reach the bank before the cutoff date, the cutoff statement will include transactions recorded after that date.

(B) It is helpful to include a list of the account names and bank account numbers for each of the clients' accounts to receive timely and complete response.

(C) The letter may also include requests for:

- A statement of all securities or other items held for the client's account as of the closing date for collection or safekeeping, or as agent or trustee (including titles and bank account numbers).
- List of authorized check signers for the above accounts. (This may have been previously requested at a preliminary date in connection with the study and evaluation of internal accounting control.)

.04

STANDARD BANK CONFIRMATION INQUIRY
Approved 1966 by
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
and
BANK ADMINISTRATION INSTITUTE (FORMERLY NABAC)

ORIGINAL
To be mailed to accountant

_______________19____

Dear Sirs:

Your completion of the following report will be sincerely appreciated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. Kindly mail it in the enclosed stamped, addressed envelope *direct* to the accountant named below.

Report from

(Bank) ______________________________

____

____

Accountant

Yours truly,

____
(ACCOUNT NAME PER BANK RECORDS)

By ______________________________
Authorized Signature

Bank customer should check here if confirmation of bank balances only (item 1) is desired. ☐

NOTE—If the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the columnar headings below.

Dear Sirs:

1. At the close of business on_______________19____our records showed the following balance(s) to the **credit** of the above named customer. In the event that we could readily ascertain whether there were any balances to the credit of the customer not designated in this request, the appropriate information is given below.

AMOUNT	ACCOUNT NAME	ACCOUNT NUMBER	Subject to Withdrawal by Check?	Interest Bearing? Give Rate
$ (Some banks request that they be provided with account name and number)				

2. The customer was directly liable to us in respect of loans, acceptances, etc., at the close of business on that date in the total amount of $__________, as follows:

AMOUNT	DATE OF LOAN OR DISCOUNT	DUE DATE	INTEREST		DESCRIPTION OF LIABILITY, COLLATERAL, SECURITY INTERESTS, LIENS, ENDORSERS, ETC.
			Rate	Paid to	
$					

3. The customer was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $__________, as below:

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

4. Other direct or contingent liabilities, open letters of credit, and relative collateral, were

____

5. Security agreements under the Uniform Commercial Code or any other agreements providing for restrictions, not noted above, were as follows (if officially recorded, indicate date and office in which filed):

____

Yours truly, (Bank) ____________________

Date_______________19____ By ____________________
Authorized Signature

Additional copies of this form are available from the American Institute of CPAs, 1211 Avenue of the Americas, New York, N. Y. 10036

STANDARD BANK CONFIRMATION INQUIRY
Approved 1966 by
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
and
BANK ADMINISTRATION INSTITUTE (FORMERLY NABAC)

DUPLICATE
To be retained by Bank

______________19____

Dear Sirs:

Your completion of the following report will be sincerely appreciated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. Kindly mail it in the enclosed stamped, addressed envelope *direct* to the accountant named below.

Report from

(Bank) ______________________________

____

____

Accountant

Yours truly,

____
(ACCOUNT NAME PER BANK RECORDS)

By ______________________________
Authorized Signature

Bank customer should check here if confirmation of bank balances only (item 1) is desired. ☐

NOTE—If the space provided is inadequate, please enter totals hereon and attach a statement giving full details as called for by the columnar headings below.

Dear Sirs:

1. At the close of business on______________19____our records showed the following balance(s) to the **credit** of the above named customer. In the event that we could readily ascertain whether there were any balances to the credit of the customer not designated in this request, the appropriate information is given below.

AMOUNT	ACCOUNT NAME	ACCOUNT NUMBER	Subject to Withdrawal by Check?	Interest Bearing? Give Rate
$ (Some banks request that they be provided with account name and number)				

2. The customer was directly liable to us in respect of loans, acceptances, etc., at the close of business on that date in the total amount of $____________, as follows:

AMOUNT	DATE OF LOAN OR DISCOUNT	DUE DATE	INTEREST		DESCRIPTION OF LIABILITY, COLLATERAL, SECURITY INTERESTS, LIENS, ENDORSERS, ETC.
			Rate	Paid to	
$					

3. The customer was contingently liable as endorser of notes discounted and/or as guarantor at the close of business on that date in the total amount of $____________, as below:

AMOUNT	NAME OF MAKER	DATE OF NOTE	DUE DATE	REMARKS
$				

4. Other direct or contingent liabilities, open letters of credit, and relative collateral, were

____

5. Security agreements under the Uniform Commercial Code or any other agreements providing for restrictions, not noted above, were as follows (if officially recorded, indicate date and office in which filed):

____

Yours truly, (Bank) ______________________________

Date______________19____

By ______________________________
Authorized Signature

Additional copies of this form are available from the American Institute of CPAs, 1211 Avenue of the Americas, New York, N. Y. 10036

.05 Request for Confirmation of Petty Cash Fund and Advances to Employees

(Prepared on client's letterhead)

(Date)

(Name)
(Address)

Dear ....:

Our auditors, (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the balance of the petty cash fund (or amount of advances) in your possession as of December 31, 19XX which was shown by our records as $............

Please indicate in the space provided below whether the amount above agrees with your records. If not, please send the auditors any information you have that will help them reconcile the difference.

After signing and dating your reply, please return it directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

The foregoing information is in agreement with my records as of December 31, 19XX with the following exceptions (if any):

....
....
....

Date: .... Signed: ....

.06 Securities and Cash in Custodian or Trust Accounts

(Prepared on client's letterhead)

(Date) [Note (A) below]

(Name of custodian
or trustee)
(Address)

Dear ....:

Our auditors, (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please send directly to our auditors a list of our securities owned at (insert date) and the amount of principal and income cash held by you at that date for each of the following accounts [Notes (C) & (D)]:

	Name of account	Account no. [Note (B)]
1.	....	....
2.	....	....
3.	....	....

Please also indicate to the auditors whether to your knowledge any of the securities are pledged or otherwise encumbered.

Please mail your reply directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

NOTES TO USER:

(A) The request should be sent so it reaches the trustees or custodians sufficiently in advance of the listing date for them to respond in a practical manner.

(B) Use the custodian or trustee's account number.

(C) This letter may be expanded, if necessary, to request cutoff statements of activity (principal and interest) in the accounts.

(D) Sometimes this request is combined with a request for cutoff bank statements and a standard bank confirmation. However, it may be more practical to send separate letters because a bank's commercial banking and trust departments are usually separate operations.

.07 Securities Held by Brokers

(Prepared on client's letterhead)

(Date) [Note (A) below]

(Broker's Name)
(Address)

Dear ....:

In connection with their regular examination of our financial statements, please send directly to our auditors (insert name and address of auditors), a statement of our account(s) [Note (B)] with you as of (insert date), indicating the following information:

1. Securities held by you for our account.
2. Securities out for transfer to our name.
3. Any amounts payable to or due from us.

Please mail your reply directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

NOTES TO USER:

(A) The request should be sent so it reaches the broker sufficiently in advance of the listing date for the broker to respond in a practical manner.

(B) It may be helpful to include the account number(s) used by the broker for the client's account(s).

.08 Sample Receipts for Return of Cash or Securities Counted by Auditor's Representative, and Cutoff Bank Statements Received Directly by the Auditors

Cash Count

The above detailed items were counted in my presence and returned to me intact by (insert individual's name), representative of (insert auditor's firm name).

(Date and Time) Custodian ....
(custodian's signature)

Securities Count

Received intact from (insert individual's name), representative of (insert auditor's firm name), the securities listed above contained in Box ...... of the (insert name of bank or custodian) which were counted by him in my presence (or presented to him for count).

Date and Time .... Signed ....
Title ....

Cutoff Bank Statement(s)

Received intact from (insert individual's name), representative of (insert auditor's firm name), the cutoff bank statements and related paid checks for the period from .... to ....
(periods indicated) for the accounts listed below:

Date and Time .... Signed ....
Title ....

NOTES TO USER:

- Receipt(s) should be written and signed in *ink*.
- For counts of petty cash funds, the receipt may be written directly on the bottom of the petty cash-count working paper. For security counts and returns of cutoff bank statements, the receipt may be prepared as a separate working paper.

.09 Accounts Receivable—Positive

(Prepared on client's letterhead)

(Date)

(Customer's Name)
(Address)

Dear .... :

In connection with their regular examination of our financial statements, please confirm directly to our auditors (insert name and address of auditors) the amount of your indebtedness to us which according to our records as of (insert date) amounted to $..........

If the amount shown is in agreement with your records at that date, please sign in the place provided below and return this letter directly to our auditors in the enclosed envelope.

If the amount is not in agreement with your records, please note the amount shown in your records and any information which may help reconcile the difference on the back of this letter and send it directly to our auditors in the enclosed envelope.

Remittances should not be sent to the auditors.

Very truly yours,

(Client's authorized signature)

The above stated amount is correct as of (insert date) with the following exceptions (if any): ....
....

....
(Signed by)

....
(Title)

NOTES TO USER:

- The auditor should consider sending confirmation requests at the time of the client's regular monthly billings. Coordination of confirmation procedures with the client's routine preparation and mailing of statements may offer efficiency to both the auditor and client.
- Some auditors use their own standard forms for accounts receivable confirmation requests rather than correspondence prepared by the client. In such instances, it may be advisable for the form to include a prominent notice that "this is not a request for payment."

.10 Accounts Receivable—Negative

(May be a sticker or stamp used on client's statements to customers)

PLEASE CHECK THIS STATEMENT

If this statement is *not correct* please write promptly (using the enclosed envelope), giving details of any differences, directly to our auditors,

(Name of auditors)

(Address of auditors)

who are now making an examination of our financial statements.

If you do not write to our auditors, they will consider this statement to be correct.

Remittances should NOT be sent to the auditors.

NOTES TO USER:

- A negative confirmation may also be requested in letter form using similar wording.
- The auditor should consider sending confirmation requests at the time of the client's regular monthly billings. Coordination of confirmation procedures with the client's routine preparation and mailing of statements may offer efficiency to both the auditor and client.

.11 Notes Receivable

(Prepared on client's letterhead)

(Date)

(Name)
(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the amount of your note(s) and collateral held by us as of (insert date), and the interest rate and date to which interest has been paid, which our records show as follows:

Date of Note	Due Date	Original Amount	Unpaid Principal	Interest Rate	Interest Paid to

Collateral:

If the above information is in agreement with your records at that date, please so indicate by signing in the place provided below and return the copy of this letter directly to our auditors in the enclosed envelope.

If the above is not in agreement with your records, please note in the space provided the particulars shown in your records and any information which may help reconcile the difference from our records. Remittances should not be sent to the auditors.

Very truly yours,

(Client's authorized signature)

The above information is correct as of (insert date) with the following exceptions (if any): ....
....
....

....
(Signed by)

....
(Title)

.12 Inventories Held by Warehouses or Others When Listing Is Not Provided by Client

(Prepared on client's letterhead)

(Date)

(Name of warehouse)
(Address)

Dear . . . . :

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please send directly to our auditors the following information about merchandise held in your custody for our acount at (insert date):

1. Quantities on hand; for each lot please indicate the following:
   (a) Lot number (list each lot separately)
   (b) Date received
   (c) Kind of merchandise
   (d) Unit of measure or package
      (1) Number of units
      (2) Kind of units (box, can, crate, quart, pound, dozen, etc.)
2. A statement about how you determined the above requested quantities; specify whether they were determined by physical count, weight or measure, or if they represent your book record.
3. A list of negotiable or nonnegotiable warehouse receipts issued, if any, and whether or not such receipts have, to your knowledge, been assigned or pledged.
4. Statement of any known liens against this merchandise.
5. Amount of unpaid charges, if any, as of (insert date).

Please mail your reply directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

.13 Inventories Held by Warehouses or Others When Listing Is Provided by Client

(Prepared on client's letterhead)

(Date)

(Name of Warehouse)
(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the following information about the merchandise held by you for our account as of (insert date):

1. The correctness of the quantities shown on the enclosed listing of such merchandise prepared from our records (a second copy is enclosed for your files). If the enclosed listing differs from the quantities you held for us as of (insert date), please include details of the specific differences in your response to our auditors.
2. Your statement on how you determined the correctness of the quantities you are confirming; please specify whether determined by physical count, weight or measure, or whether the quantities are from your records.
3. A list of negotiable or nonnegotiable warehouse receipts issued, if any, and whether or not such receipts have, to your knowledge, been assigned or pledged.
4. Statement of any known liens against these goods.
5. Amount of any unpaid charges as of (insert date).

Please mail your reply directly to (insert name and address of auditors). A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

The next page is 7215.

.14

STANDARD CONFIRMATION INQUIRY
FOR LIFE INSURANCE POLICIES

Developed by
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
LIFE OFFICE MANAGEMENT ASSOCIATION
MILLION DOLLAR ROUND TABLE

ORIGINAL
To be mailed to accountant

______________19____

Dear Sirs:

Please furnish the information requested below in items 1 through 9 (and also in items 10 through 12 if any of those items are checked) for the policies identified on lines A, B and C. This information is requested as of the date indicated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. The enclosed envelope is provided for the return of one copy of this form to the accountant named below.

(Ins. Co.)____________________________

____________________________ (Name of owner as shown on policy contracts)

____________________________ Information requested as of______________

(Accountant)____________________________ Request authorized by

____

			Col. A	Col. B
A.	Policy number			
B.	Insured			
C.	Beneficiaries as shown on policies (if verification requested in item 11) Col. A— Col. B—			
1.	Face amount of basic policy		$	$
2.	Values shown as of (insert date if other than date requested)			
3.	Premiums, including prepaid premiums, are paid to (insert date)			
4.	Policy surrender value (excluding dividends, additions and indebtedness adjustments)		$	$
5.	Surrender value of all dividend credits, including accumulations and additions		$	$
6.	Termination dividend currently available on surrender		$	$
7.	Other surrender values available to policyowner	a. Prepaid premium value	$	$
		b. Premium deposit funds	$	$
		c. Other	$	$
8.	Outstanding policy loans, excluding accrued interest		$	$
9.	If any loans exist, complete either "a" or "b" a. Interest accrued on policy loans		$	$
	b. 1.) Loan interest is paid to (enter date)			
	2.) Interest rate is (enter rate)			

The accountant will indicate by a check (✓) which if any of items 10-12 are to be answered

☐	**10.**	Is there an assignee of record? (enter Yes or No)		
☐	**11.**	Is beneficiary of record as shown in item C above? (enter Yes or No*)	*	*
☐	**12.**	Is the name of policyowner (subject to any assignment) as shown at the top of the form? (enter Yes or No) ______. If No, enter name of policyowner of record. ______________		

*If answer to 11 is No, please give name of beneficiary or date of last beneficiary change______________

Date______________By________________________Title______________

For the insurance company addressed

Additional copies of this form are available from the American Institute of CPAs, 1211 Avenue of the Americas, New York, N. Y. 10036

STANDARD CONFIRMATION INQUIRY
FOR LIFE INSURANCE POLICIES
Developed by
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
LIFE OFFICE MANAGEMENT ASSOCIATION
MILLION DOLLAR ROUND TABLE

DUPLICATE
To be retained by insurance company

________________19____

Dear Sirs:

Please furnish the information requested below in items 1 through 9 (and also in items 10 through 12 if any of those items are checked) for the policies identified on lines A, B and C. This information is requested as of the date indicated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. The enclosed envelope is provided for the return of one copy of this form to the accountant named below.

(Ins. Co.)________________________

____

________________________ (Name of owner as shown on policy contracts)

Information requested as of________________

(Accountant)________________________ Request authorized by

____

		Col. A	Col. B
A.	Policy number		
B.	Insured		
C.	Beneficiaries as shown on policies (if verification requested in item 11) Col. A— Col. B—		
1.	Face amount of basic policy	$	$
2.	Values shown as of (insert date if other than date requested)		
3.	Premiums, including prepaid premiums, are paid to (insert date)		
4.	Policy surrender value (excluding dividends, additions and indebtedness adjustments)	$	$
5.	Surrender value of all dividend credits, including accumulations and additions	$	$
6.	Termination dividend currently available on surrender	$	$
7.	Other surrender values available to policyowner — a. Prepaid premium value	$	$
	b. Premium deposit funds	$	$
	c. Other	$	$
8.	Outstanding policy loans, excluding accrued interest	$	$
9.	If any loans exist, complete either "a" or "b" a. Interest accrued on policy loans	$	$
	b. 1.) Loan interest is paid to (enter date)		
	2.) Interest rate is (enter rate)		

The accountant will indicate by a check (✓) which if any of items 10-12 are to be answered

			Col. A	Col. B
☐	**10.**	Is there an assignee of record? (enter Yes or No)		
☐	**11.**	Is beneficiary of record as shown in item C above? (enter Yes or No*)	*	*
☐	**12.**	Is the name of policyowner (subject to any assignment) as shown at the top of the form? (enter Yes or No) ________. If No, enter name of policyowner of record. ________________		

*If answer to 11 is No, please give name of beneficiary or date of last beneficiary change.________________

Date________________By________________________Title________________
For the insurance company addressed

Additional copies of this form are available from the American Institute of CPAs, 1211 Avenue of the Americas, New York, N. Y. 10036

.15 Pension Plan Actuarial Cost Information

(Prepared on client's letterhead)

(Date)

(Name of Actuary)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements as of (insert date) and for the (insert period) then ended. Accordingly, information is needed so we may determine the amounts of pension cost and other information to be disclosed in our financial statements in conformity with APB Opinion No. 8, as amended by FASB Statement No. 36.

In this connection, please provide our auditors with the following information about our Employees' Pension Plan (list the plans where several plans exist and are accounted for separately) as of the date when you last made an actuarial valuation of our Plan(s):

1. Date of your most recent valuation.
2. Actuarial cost method(s) used.
3. Pension cost for the most recent year, specifically:
    a. Normal cost.
    b. Past service cost.
    c. Vested benefit cost (if applicable).
4. Unfunded prior service cost, if any, at most recent valuation date.
5. Prior service cost arising from amendments to the plan, if any, indicating:
    a. Date amendment established.
    b. Initial amount at amendment date.
    c. Unfunded amount at most recent valuation date.
    d. Period of amortization.
6. Interest rate used in determining costs.
7. Actuarial present value of vested accumulated plan benefits.
8. Actuarial present value of nonvested accumulated plan benefits.
9. Plan's net assets available for benefits (indicate basis of valuation).
10. Assumed rates of return used in determining the actuarial present values of vested and nonvested accumulated plan benefits.

11. Net annual actuarial gain or loss for most recent year, if separately calculated. Indicate method of recognizing such gains and losses in present or future actuarial determinations.
12. Basis and extent of recognition, if any, of unrealized appreciation and depreciation of pension fund investments in actuarial determinations.
13. Minimum age or length of service, if any, used to exclude employees from basis for actuarial determinations, and your estimate of the effect of those exclusions on the pension cost calculations.
14. A description of any changes since your previous review or report in the matters covered by Items 2, 4 and 5 (re period of amortization), 6, 9 (re basis of valuation), 11 (re method of recognition), 12, and 13.
15. A description of any changes in actuarial assumptions and/or cost method used, and their approximate total dollar effect on annual pension cost.
16. A statement as to whether your responses to the above items, in your opinion as actuaries for the Plan(s) have been made in accordance with the related provisions of APB Opinion No. 8, as amended by FASB Statement No. 36. If not, describe the specific difference(s).
17. A statement as to whether, in your opinion, the plan conforms to the requirements of ERISA.

A copy of your report covering the above items will suffice. If some of the above items are not covered in the report, please provide supplementary data.

Please mail your reply directly to our auditors. A stamped addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

.16 Pension Plan Assets Held by Trustee

(Prepared on client's letterhead)

(Date)

(Name of trustee or custodian)

(Address)

Dear . . . . :

Our auditors (insert name and address of auditor) are now examining our financial statements. Accordingly, please provide our auditors directly with a listing of the assets including market values as of (insert date) for our employees' pension trust (insert title and trustee's account number).

Please also provide the auditors with the following information about our employees' pension trust for the period from (insert date) to (insert date) [see note below] :

1. Contributions by the Company during the above period.
2. Contributions by employees during the above period.
3. Payments to beneficiaries during the above period.
4. Any unpaid fees due for services rendered to (insert audit date).

Please send your reply directly to our auditors. A stamped addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

NOTE TO USER:

A listing of the assets might not be requested if one had already been received by the client. In that case, the auditor might want the trustee to confirm the total market value per the listing.

.17 Notes Payable

(Prepared on client's letterhead)

(Date)

(Name)

(Address)

Dear ....:

Our auditors (insert name and address) are performing their regular examination of our financial statements.

Accordingly, please confirm directly to them the following information relating to our note(s) payable to you, as of (insert date):

Date of Note: (insert date)

Original Amount: (insert amount)

Unpaid Principal
Balance: (insert amount)

Maturity Date: (insert date)

Interest Rate: (insert rate)

Date to which interest has been paid: (insert date)

Amount and description of collateral: (insert description)

Any other direct or contingent liabilities to you: (insert "None" or description)

If the above information is in agreement with your records at that date, please so indicate by signing in the place provided below and return the copy of this letter directly to our auditors in the enclosed envelope.

If the above is not in agreement with your records, please note in the space provided the particulars shown in your records and any information which may help reconcile the difference from our records.

Very truly yours,

(Client's authorized signature)

The above information is correct as of (insert date) with the following exceptions (if any): ....

....

Date .... Signature ....

Title ....

NOTE TO USER:

Banks would ordinarily confirm this information in connection with the Standard Bank Confirmation form. Depending upon the note agreement, however, additional items may need to be requested.

.18 Mortgage Debt

(Prepared on client's letterhead)

(Date)

(Name of creditor or trustee)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are now performing their regular annual examination of our financial statements. In this connection, please confirm directly to our auditors the following information about our mortgage indebtedness to you as of (insert date):

1. Unpaid principal balance.
2. Interest rate.
3. Terms for payment of principal.
4. Date to which interest has been paid.
5. Nature of mortgage and description or address of property mortgaged.
6. Amounts on deposit with you in escrow for:
   a. Insurance
   b. Real estate taxes
7. Amounts paid during the period (insert dates from and to) for:
   a. Insurance
   b. Taxes
8. Amounts on deposit with you for the "reserve for repairs."
9. The nature of defaults, if any.

A return envelope is enclosed for your reply.

Very truly yours,

(Client's authorized signature)

NOTE TO USER:

Many of the items requested will vary with the circumstances of the particular mortgage or other debt involved. The above sample assumes the indenture involves an escrow arrangement for insurance and real estate taxes and a deposit account for repairs.

.19 Accounts Payable

(Prepared on client's letterhead)

(Date)

(Name)
(Address)

Dear ....:

In connection with their regular examination of our financial statements, please confirm directly to our auditors (insert name and address of auditors), whether or not there is a balance due you as of (insert date). If there is a balance due, please indicate the amount in the space provided below and attach a statement of the items making up the balance.

Please mail your reply directly to (name of auditors). A stamped addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

Our records indicate that a balance of $........... was due from (insert name of client) at (insert date) as itemized in the attached statement.

Date................ Signed ....

Title ....

.20 Obligation to Lessor

(Prepared on client's letterhead)

(Date)

(Name of lessor)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements as of (insert balance sheet date) and for the (insert time period) then ended. In connection with this examination, please provide directly to our auditors the following information as of (insert balance sheet date) regarding the lease dated (insert date lease was executed) of (insert brief identification of property under lease) which we are leasing from you:

1. Inception and expiration dates for the lease period, from .... to ....
2. Amount of monthly rent ....
3. Renewal options (if any):
   a. Dates of renewal period, from .... to ....
   b. Amount of monthly rent for renewal ....
4. Purchase options (if any):
   a. Amount of purchase price ....
   b. Inception and expiration dates of option, from .... to ....
   c. Percent of monthly rent (if any) applicable towards purchase price ....
5. Dates and descriptions of amendments or supplementary understandings, if any, to the lease mentioned above.
6. The amount of outstanding delinquent payments, if any.
7. A statement that there are no defaults, or the nature of defaults, if any.

A return envelope is enclosed for your reply.

Very truly yours,

(Client's authorized signature)

NOTE TO USER:

The content of this type of letter will vary based on the auditor's professional judgment in the circumstances. To provide additional illustrative language, the above letter is not made parallel with the illustration at AAM section 7200.21.

.21 Property Out on Lease

(Prepared on client's letterhead)

(Date)

(Name of Lessee)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are making their regular examination of our financial statements as of (insert balance sheet date) and for the (insert time period) then ended. In connection with this examination, please confirm directly to our auditors the following information regarding the lease dated (insert execution date of lease) of (insert brief identification of property under lease) which you are leasing from us:

1. Inception and expiration dates of lease period from .... to ....
2. Amount of monthly rent ....
3. Total rental payments made ....
4. Date of last payment ....

A return envelope is enclosed for your reply.

Very truly yours,

(Client's authorized signature)

NOTES TO USER:

- If the leased property is of a mobile or portable nature such as a bulldozer or television camera, the confirmation may also include a request for specific serial numbers of significant equipment.
- In certain circumstances, the auditor may wish to consider confirming additional information such as renewal options, purchase options, and amendments or supplementary understandings.

.22 Registrar—Capital Stock

(Prepared on client's letterhead)

(Date)

(Name of Registrar)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the following information as of the close of business (insert balance sheet date) about each class of our preferred and common stock:

1. Authorized number of shares
2. Issued number of shares
3. Outstanding number of shares

Please also indicate the amount of any unpaid registrar fees due you as of (insert balance sheet date).

A return envelope is enclosed for your convenience.

Very truly yours,

(Authorized signature for client)

NOTES TO USER:

- It may be helpful to include the registrar's account number for the client's account to receive a timely response.
- Some auditors prefer that the confirmation request include identification of each class of stock.
- The above illustration assumes the client has a separate transfer agent (see AAM section 7200.23).

.23 Transfer Agent—Capital Stock

(Prepared on client's letterhead)

(Date)

(Name of Transfer Agent)

(Address)

Dear ....:

Our auditors (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the following information as of (insert balance sheet date) about each class of our preferred and common stock:

1. Authorized number of shares
2. Number of shares issued and outstanding
3. Number of outstanding shares registered in the name of our Company.

Please also indicate the amount of any unpaid transfer agent fees due you as of (insert balance sheet date).

A return envelope is enclosed for your convenience.

Very truly yours,

(Authorized signature for client)

Notes to User:

- It may be helpful to include the transfer agent's account number for the client's account to receive a timely response.
- Some auditors prefer that the confirmation request include identification of each class of stock.
- Depending on the auditor's judgment in the circumstances the confirmation request may also include inquiries about such matters as (i) the number of shares issued to each of specifically mentioned officers and directors, (ii) specified information about shareholders owning more than a stated percent of the total outstanding shares, and (iii) amounts deposited during the year for the payment of dividends.

.24 Request for Confirmation of Money Market Fund

(Prepared on client's letterhead)

(Date)

(Name)
(Address)

Dear ....:

Our auditors, (insert name and address of auditors) are performing their regular examination of our financial statements. Accordingly, please confirm directly to our auditors the balance of our money market fund account(s) as of (insert date).

Please indicate in the space provided below the account number(s) and balance(s) of our account(s) per your records.

Please sign and date your reply and return it directly to the auditors. A stamped, self-addressed envelope is enclosed for your convenience.

Very truly yours,

(Client's authorized signature)

Account No.	*Date*	*Balance*
....	....	....
....	....	....
....	....	....

Date: .... Signed: ....

The next page is 7301.

AAM Section 7300

Inquiries to Legal Counsel[1]

.01 Illustrative Inquiry Letter to Legal Counsel[2]

(Prepared on client's letterhead—See Note A)

Date (See Note B)

(Name of lawyer)

(Address of lawyer)

Dear ....:

In connection with an examination of our financial statements at (balance sheet date) and for the (period) then ended, management of the Company has prepared, and furnished to our auditors (name and address of auditors), a description and evaluation of certain contingencies, including those set forth below involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the Company in the form of legal consultation or representation. These contingencies are regarded by management of the Company as material for this purpose (management may indicate a materiality limit if an understanding has been reached with the auditor). Your response should include matters that existed at (balance sheet date) and during the period from that date to the date of your response.

Pending or Threatened Litigation
(excluding unasserted claims)

[Ordinarily the information would include the following: (1) the nature of the litigation, (2) the progress of the case to date, (3) how management is responding or intends to re-

[1] If a client has not needed to retain legal counsel, the auditor may express an unqualified opinion on the financial statements even though he has not obtained a letter from legal counsel of the Company. In these circumstances, the auditor should obtain written representation from the Company that legal counsel has not been retained for matters concerning business operations that may involve current or prospective litigation (see AICPA Technical Practice Aids, section 9320.07).

[2] Extracted from the Appendix to Statement on Auditing Standards No. 12 [AU section 337A, Volume 1, *AICPA Professional Standards*]. [See Note B.]

spond to the litigation (for example, to contest the case vigorously or to seek an out-of-court settlement), and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.]

Please furnish to our auditors such explanation, if any, that you consider necessary to supplement the foregoing information, including an explanation of those matters as to which your views may differ from those stated and an identification of the omission of any pending or threatened litigation, claims, and assessments or a statement that the list of such matters is complete.

Unasserted Claims and Assessments

(considered by management to be probable of assertion, and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome)

[Ordinarily management's information would include the following: (1) the nature of the matter, (2) how management intends to respond if the claim is asserted, and (3) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.]

Please furnish to our auditors such explanation, if any, that you consider necessary to supplement the foregoing information, including an explanation of those matters as to which your views may differ from those stated.

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct.

Please specifically identify the nature of and reasons for any limitation on your response.

[The auditor may request the client to inquire about additional matters, for example, unpaid or unbilled charges or specified information on certain contractually assumed obligations of the company, such as guarantees of indebtedness of others.]

Very truly yours,

(Authorized signature for client)

NOTES TO USER:

(A) Auditors should carefully consider the provisions of SAS No. 12 [AU section 337] in drafting this letter.

(B) Sending of this letter should be timed so that the lawyer's response is dated as close to the auditor's opinion date as practicable. However, the auditor and client should consider early mailing of a draft inquiry as a convenience for the lawyer in preparing a timely response to the formal inquiry letter.

.02 Illustrative Inquiry Letter to Legal Counsel If Management Has Not Provided Details About Pending or Threatened Litigation

(Prepared on client's letterhead—See Note A)

Date (See Note B)

(Name of lawyer)
(Address of lawyer)

Dear ....:

In connection with an examination of our financial statements at (balance sheet date) and for the (period) then ended, please furnish to our auditors (name and address of auditors), the information requested below with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the Company in the form of legal consultation or representation. Your response should include matters that existed at (balance sheet date) and during the period from that date to the date of your response.

Pending or Threatened Litigation

(excluding unasserted claims)

Please prepare a description of all litigation, claims, and assessments (excluding unasserted claims and assessments) involving amounts exceeding (amount) individually or lesser amounts that exceed (amount) in the aggregate. The description of each case should include—

1. The nature of the litigation.
2. The progress of the case to date.
3. How management is responding or intends to respond to the litigation (e. g., to contest the case vigorously or to seek an out-of-court settlement).
4. An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

Unasserted Claims and Assessments

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5, as a matter of professional responsibility to us. *Please specifically confirm to our auditors that our understanding is correct.*

We have represented to our auditors that you have not advised us of any unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.

Other Matters

1. Please specifically identify the nature of and reasons for any limitation on your response.
2. Please indicate the amount owed to you for services and expenses (billed and unbilled) at (balance sheet date).

Very truly yours,

(Authorized signature for client)

NOTES TO USER:

(A) Auditors should carefully consider the provisions of SAS No. 12 [AU section 337] in drafting this letter.

(B) Sending of this letter should be timed so that the lawyer's response is dated as close to the auditor's opinion date as practicable. However, the auditor and client should consider early mailing of a draft inquiry as a convenience for the lawyer in preparing a timely response to the formal inquiry letter.

.03 Improving Inquiry Techniques

If inquiries to legal counsel are not sufficiently detailed or specific, deficiencies in attorneys' responses may result. A conference between the auditor and the attorney may be necessary to clarify the attorney's written response and paragraph 10 of SAS No. 12 [AU section 337.10] provides for such a conference. However, to improve the auditor's ability to receive all of the information necessary to complete his audit, he may wish to consider including the following matters in an inquiry to legal counsel:

a. A request that the attorney specify the effective date of his response if it is other than the date of his reply.

b. A request that the attorney mail his response so that it will be received by a certain date.

c. A request that the nature of any litigation specifically identify (i) the proceedings, (ii) the claim(s) asserted, (iii) the amount of monetary damages sought, or if no amounts are indicated in preliminary case filings, a statement to that effect, and (iv) the objectives sought by the plaintiff, if any, other than monetary or other damages, such as performance or discontinued performance of certain actions.

d. A request that the attorney avoid such vague phrases as "meritorious defenses," "without substantial merit," and "reasonable chance" in expressing an opinion on the outcome of litigation.

e. If an opinion cannot be expressed on the outcome of litigation, a request that the attorney so state together with his reasons for that position.

f. A request that the attorney specify to what extent potential damages are covered by insurance. (It may be possible to obtain the opinion of the insurer's counsel regarding the applicability of insurance coverage.)

g. A request that the attorney provide a summary of material litigation, claims, and assessments settled during the period.

h. A statement that confirmation of the understanding regarding disclosure of unasserted claims and assessments is an integral part of the audit inquiry and that failure to so confirm will require a follow-up contact.

i. A statement that the attorney's response will not be quoted or referred to in the financial statements without first consulting with him.

The next page is 7401.

AAM Section 7400

Representation Letters

.01 Illustrative Representation Letter—Examination of Financial Statements

Introductory Comment (Extracted from the Appendix to SAS No. 19 [AU section 333A, Volume 1, *AICPA Professional Standards*])

The following letter is presented for illustrative purposes only. The written representations to be obtained should be based on the circumstances of the engagement and the nature and basis of presentation of the financial statements being examined. The introductory paragraph should specify the financial statements and periods covered by the auditor's report, for example, "balance sheets of XYZ Company as of December 31, 19X1 and 19X0, and the related statements of income and retained earnings and changes in financial position for the years then ended." Similarly, representations concerning inventories and sales and purchase commitments would not be obtained if such items are not material to the company's financial position and results of operations or if they are not recorded in the financial statements under a comprehensive basis of accounting other than generally accepted accounting principles, for example, financial statements prepared on the cash basis of accounting.

The illustrative letter assumes that there are no matters requiring specific disclosure to the auditor. If such matters exist, they should be indicated by listing them following the representation, by reference to accounting records or financial statements, or by other similar means. For example, if an event subsequent to the date of the balance sheet has been disclosed in the financial statements, item 14 could be modified as follows: "Except as discussed in Note X to the financial statements, no events have occurred. . . ." Similarly, in appropriate circumstances, item 4 could be modified as follows: "We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except that certain marketable securities have been excluded from current assets based on our intention not to dispose of them, which is supported by the minutes of the December 7, 19X1, meeting of the board of directors."

Certain terms are used in the illustrative letter that are defined elsewhere in authoritative literature, for example, irregularities (SAS No. 16 [AU section 327]) and related parties (SFAS 57, par. 24f [AC R36.406]). To avoid misunderstanding concerning the meaning of such terms, the auditor may wish to furnish those definitions to the client and request that the client include the definitions in the written representations.

The illustrative letter assumes that management and the auditor have reached an understanding on the limits of materiality for purposes of the written representations. However, it should be noted that a materiality limit would not apply for certain representations, as explained in SAS No. 19, paragraph 5 [AU section 333.05, Volume 1, *AICPA Professional Standards*].

Illustrative Representation Letter (Extracted from the Appendix to SAS No. 19 [AU section 333A, Volume 1, *AICPA Professional Standards*])

(Prepared on client's letterhead)

(Date of Auditor's Report)

(To Independent Auditor)

In connection with your examination of the (identification of financial statements) of (name of client) as of (date) and for the (period of examination) for the purpose of expressing an opinion as to whether the (consolidated) financial statements present fairly the financial position, results of operations, and changes in financial position of (name of client) in conformity with generally accepted accounting principles (other comprehensive basis of accounting), we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

1. We are responsible for the fair presentation in the (consolidated) financial statements of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles (other comprehensive basis of accounting).

2. We have made available to you all—
   a. Financial records and related data.
   b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no—
   a. Irregularities involving management or employees who have significant roles in the system of internal accounting control.
   b. Irregularities involving other employees that could have a material effect on the financial statements.
   c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

5. The following have been properly recorded or disclosed in the financial statements:

a. Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
b. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.
c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
d. Agreements to repurchase assets previously sold.

6. There are no—

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 [AC section C59].

7. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 [AC section C59].

8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

9. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

10. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

11. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

12. Provision has been made for any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

14. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

....
(Name of Chief Executive
Officer and Title)

....
(Name of Chief Financial
Officer and Title)

NOTES TO USER:

This illustration is only one example of a representation letter. Alternate wording is permissible and it may be advisable to tailor the letter to the needs of an engagement. (See "Management representation letters—adapting them to the circumstances," by Brian Zell and Douglas R. Carmichael, Professional Notes, *Journal of Accountancy,* March 1979, pages 87-90.)

A booklet entitled *The Representation Letter* (New York, AICPA, 1978) explains to clients the purpose of representation letters.

.02 Illustrative Representation Letter—Review of Financial Statements

Introductory Comment

For reviews of financial statements, the following guidance is set forth in Statement on Standards for Accounting and Review Services (SSARS) No. 1, paragraph 31 [AR section 100.31, Volume 2, *AICPA Professional Standards*]:

> The accountant may wish to obtain a representation letter from the owner, manager, or chief executive officer, and if appropriate, the chief financial officer.

The following comment is set forth in Appendix D to SSARS No. 1 [AR section 100.55, Volume 2, *AICPA Professional Standards*]:

> A review of financial statements consists principally of inquiries of company personnel and analytical procedures applied to financial data. Because a review does not contemplate tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, among other things, the accountant may consider it advisable to obtain a written representation from his client to confirm the oral representations made to him. The following representation letter is included for illustrative purposes only. The accountant may decide, based on the circumstances of his review engagement, that other matters should be specifically included in the letter and that some of the representations included in the illustrative letter are not necessary.

Illustrative Representation Letter (from Appendix D to SSARS No. 1)

(Prepared on client's letterhead)

(Date of Accountant's Report)

(To the Accountant)

In connection with your review of the (identification of financial statements) of (name of client) as of (date) and for the (period of review) for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your review.

1. The financial statements referred to above present the financial position, results of operations, and changes in financial position of (name of client) in conformity with generally accepted accounting principles. In that connection, we specifically confirm that—

a. The company's accounting principles, and the practices and methods followed in applying them, are as disclosed in the financial statements.

b. There have been no changes during the (period reviewed) in the company's accounting principles and practices.

c. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

d. There are no material transactions that have not been properly reflected in the financial statements.

e. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.

f. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

g. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

h. There are no related party transactions or related amounts receivable or payable that have not been properly disclosed in the financial statements.

i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

j. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

2. We have advised you of all actions taken at meetings of stockholders, board of directors, and committees of the board of directors (or other similar bodies, as applicable) that may affect the financial statements.

3. We have responded fully to all inquiries made to us by you during your review.

....

(Name of Owner or Chief Executive Officer and Title)

....

(Name of Chief Financial Officer and Title, where applicable)

.03 Illustrative Representation Letter—Personal Financial Statements

[*Date of accountant's report*]

[*To the accountant*]

In connection with your [*compilation, review, or examination*] of the statement of financial condition and the related statement of changes in net worth of James and Jane Person as of [*date*] and for the [*period*] then ended for the purpose of [*description*], we confirm, to the best of our knowledge and belief, the following representations made to you during your [*compilation, review, or examination*].

1. We are responsible for the fair presentation in the statements of financial condition and changes in net worth in conformity with generally accepted accounting principles. All assets are presented at their estimated current values and all liabilities are presented at their estimated current amounts, which have been determined in accordance with guidelines promulgated by the American Institute of Certified Public Accountants. (Because of our limited expertise with generally accepted accounting principles, including financial statement disclosure, we have engaged you to advise us in fulfilling that responsibility.)
2. We have made all financial records and related data available to you. We have not knowingly withheld from you any financial records or related data that in our judgment would be relevant to your [*compilation, review, or examination*].
3. The following have been properly recorded or disclosed in the financial statements:
   a. Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees. I understand that related parties include members of my family as well as business entities in which I, or members of my family, have an investment that allows the exercise of control or significant influence.
   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
   c. Agreements to repurchase assets previously sold.
4. There are no violations or possible violations of laws or regulations that have come to our attention whose effects are regarded as significant enough to be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

5. There are no material transactions or balances that have not been properly recorded or disclosed in the financial statements.
6. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
7. We have not retained an attorney for matters that may involve current or prospective litigation, and we are not aware of any pending or threatened litigation, claims, or assessments that should be disclosed in the financial statements.
8. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
9. No events have occurred subsequent to the date of the statement of financial condition that would require adjustment to, or disclosure in, the financial statements.
10. We have responded fully to all inquiries made to us by you during the engagement.

____

(James Person)

____

(Jane Person)

[Source: AICPA *Personal Financial Statements Guide.*]

AAM Section 8000

DISCLOSURE CHECKLISTS

The checklists included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. At the request of certain AICPA members, these checklists are also being made available for purchase by AICPA members subject to their recognition of the following:

- The checklists are "tools" and in no way represent official positions or pronouncements of the AICPA.
- The checklists have been updated through SAS No. 46, SSARS No. 5, FASB Statement of Financial Accounting Standards No. 78, and FASB Interpretation No. 37. The checklists should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.
- The checklists do not represent minimum requirements and do not purport to be all inclusive. The checklists were developed for use in respect of the financial statements of general "for profit" companies and probably will require extensive modification if applied to the financial statements of "not-for-profit" organizations and companies in specialized industries. Section 8500 includes a list of FASB Statements and Interpretations related to specialized industries which are not included in this checklist.

Users of these checklists are urged to refer directly to applicable authoritative pronouncements when appropriate.

TABLE OF CONTENTS

Section		Paragraph
8100	Disclosure Checklists—General	.01-.04
8200	Auditors' Reports Checklist	.01-.03
8300	Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist	.01-.03
8400	Financial Statements and Notes Checklist	.01-.07
8500	Specialized Industries	.01-.03

The next page is 8101.

AAM Section 8100

Disclosure Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, and Accounting Research Bulletins. Some checklists also include references to FASB Interpretations and to selected SEC disclosure requirements. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in these sections is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in note" (with provisions for indicating a cross reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Disclosure checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- The checklists are not all inclusive and are not intended to present minimum requirements.

- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklists.

If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

The next page is 8201.

AAM Section 8200

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the technical information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 8001 is incorporated herein by reference.

.02 Explanation of references:

SAS = Statement on Auditing Standards

(AU) = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited.

SSARS = Statement on Standards for Accounting and Review Services

(AR) = Reference to section number in *AICPA Professional Standards* (vol. 2) of SSARS cited.

.03 Checklist Questionnaire

	Yes	No	N/A
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 2, par. 8 (AU 509.08)]	—	—	—
b. Date (or dual dates) of the report? [SAS 1. sec. 530 (AU 530); SAS 15, par. 2 (AU 505.02); SAS 26, pars. 15-17 (AU 504.15-.17)]	—	—	—
2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided? [SAS 1, sec. 220 (AU 220)]	—	—	—
a. For a public entity? [SAS 26, pars. 8-10 (AU 504.08-.10)]	—	—	—
b. For a nonpublic entity? [SSARS No. 1, pars. 22 & 38 (AR 100.22 and 100.38)]	—	—	—
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 2, par. 7 (AU 509.07)]	—	—	—
b. Comparative financial statements? [SAS 15, par. 3 (AU 505.03)]	—	—	—
4. Does the report include appropriate language in respect of the following:			

	Yes	No	N/A
a. Report on only one basic financial statement and there are no scope limitations? [SAS 2, par. 13 (AU 509.13)]	—	—	—
b. Report on comparative statements of income, retained earnings and changes in financial position without presentation of the comparative balance sheets for the prior year ends? [SAS 15, par. 3 (AU 505.03)]	—	—	—
c. Part of examination made by other independent auditors? [SAS 1, sec. 543 (AU 543); SAS 2, par. 14 (AU 509.14)]	—	—	—
d. Departure from a promulgated accounting principle when conformity would result in a misleading presentation? [SAS 2, pars. 18-19 (AU 509.18-.19)]	—	—	—
e. Report of a predecessor auditor? [SAS 7 (AU 315); SAS 15, pars. 8-12 (AU 505.08-.12)]	—	—	—
f. Updating of a previously issued opinion? [SAS 15, pars. 2 & 6-7 (AU 505.02 & 505.06-.07)]	—	—	—
g. Comparative financial statements with differing opinions? [SAS 15, par. 5 (AU 505.05)]	—	—	—
h. Audited and unaudited financial statements in comparative form? [SAS 26, pars. 14-17 (AU 504.14-.17)]	—	—	—
i. Decision to emphasize a matter? [SAS 2, pars. 9 & 27 (AU 509.09 & 509.27)]	—	—	—
5. Has a qualified opinion or disclaimer of opinion been expressed if:			
a. Scope limitations precluded application of one or more auditing procedures considered necessary in the circumstances? [SAS 2, pars. 10-13 (AU 509.10-.13); SAS 31, par. 22 (AU 326.22)]	—	—	—
b. The financial statements are affected by material uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the report date? [SAS 2, pars. 21-26 (AU 509.21-.26); SAS 34, pars. 11-13 (AU 340.11-.13); SAS 2, par. 39 as amended by SAS 43, par. 6 (AU 509.39)]	—	—	—
6. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:			

	Yes	No	N/A
a. Lack of conformity with generally accepted accounting principles (including inadequate disclosure)? [SAS 2, pars. 15-19 (AU 509.15-.19); SAS 17, par. 15 (AU 328.15); SAS 32, par. 3 (AU 431.03); SAS 34, par. 11 (AU 340.11)]	—	—	—
b. Departure from consistent application of accounting principles? [SAS 1, sec. 546 (AU 546)]	—	—	—
7. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:			
a. Are all the substantive reasons for the opinion or disclaimer disclosed? [SAS 2, pars. 32, 42 & 45 (AU 509.32, 509.42 & 509.45)]	—	—	—
b. Is the reporting language clear and appropriate for the—			
(1) Qualified opinion? [SAS 2, pars. 29-40 as amended by SAS 43, par. 6 (AU 509.29-.40)]	—	—	—
(2) Adverse opinion? [SAS 2, pars. 41-44 (AU 509.41-.44)]	—	—	—
(3) Disclaimer of opinion? [SAS 2, pars. 45-47 (AU 509.45-.47)]	—	—	—
8. Does the report include modification, if applicable, for the following:			
a. Conditions that precluded application of necessary auditing procedures to opening inventories and/or long term investments? [SAS 1, sec. 542.05-.06 (AU 542.05-.06)]	—	—	—
b. Regulated companies? [SAS 1, sec. 544.02-.04 (AU 544.02-.04); SAS 14, pars. 2-8 (AU 621.02-.08)]	—	—	—
c. Inadequate disclosure? [SAS 1, sec. 545 (AU 545)]	—	—	—
d. First examination—inadequate financial records or client-imposed limitations? [SAS 1, sec. 546.15-.16 (AU 546.15-.16)]	—	—	—
e. Client representations about related party transactions? [SAS 45, par. 2 (AU 334.12)]	—	—	—
f. Client's refusal to provide written representation? [SAS 19, par. 11 (AU 333.11)]	—	—	—

	Yes	No	N/A
g. Limitations on scope of lawyer's response? [SAS 12, pars. 12-14 (AU 337.12-.14)]	—	—	—
h. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	—	—	—
i. Scope limitation concerning errors or irregularities? [SAS 16, par. 14 (AU 327.14)]	—	—	—
j. Illegal acts by clients? [SAS 17 (AU 328)]	—	—	—
k. [Reserved]	—	—	—
l. Segment information? [SAS 21 (AU 435)]	—	—	—
m. Entity's continued existence? [SAS 34, pars. 11-13 (AU 340.11-.13)]	—	—	—
9. Has a piecemeal opinion been avoided? [SAS 2, par. 48 (AU 509.48); SAS 14, par. 12 (AU 621.12)]	—	—	—
10. For special reports, have the provisions of SAS No. 14 and SAS No. 35 been complied with:			
a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? [SAS 14, pars. 2-8 (AU 621.02-.08)]	—	—	—
b. Specified elements, accounts or items of a financial statement? [SAS 14, pars. 9-14 (AU 621.09-.14); SAS 35 (AU 622)]	—	—	—
c. Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? [SAS 14, pars. 18-19 (AU 621.18-.19)]	—	—	—
d. Financial information that requires a prescribed form of auditor's report? [SAS 14, pars. 20-21 (AU 621.20-.21)]	—	—	—
11. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document (long-form report):			
a. Is there a clear distinction between the client's representations and auditor's representations? [SAS 29, par. 20 (AU 551.20)]	—	—	—
b. Does the auditor's report on the accompanying information:			
(1) State that the examination was made for the purpose of forming an opinion on the			

	Yes	No	N/A
basic financial statements taken as a whole?	—	—	—
(2) Specifically identify the accompanying information?	—	—	—
(3) State that the accompanying information is presented for purposes of analysis and is not part of the basic financial statements?	—	—	—
(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements and the appropriate expression or disclaimer? [SAS 29, pars. 6-11 (AU 551.06-.11)]	—	—	—
12. If an auditor-submitted document with accompanying information (long-form report) is coexisting with a document that includes just the basic financial statements and auditor's report:			
a. Do the basic financial statements in all coexisting documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles? [SAS 29, par. 21 (AU 551.21)]	—	—	—
b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report? [SAS 29, par. 20 (AU 551.20)]	—	—	—
13. If the document contains interim financial information, has the auditor's report been expanded if required? [SAS 36, pars. 24-30 (AU 722.24-.30)]	—	—	—
14. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited? [SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 & 11 (AU 553.08 & 553.11)]	—	—	—
15. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:			

	Yes	No	N/A
a. Required supplementary information is omitted?	—	—	—
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	—	—	—
c. The auditor is unable to complete the procedures prescribed by SAS 27 and, if applicable:			
(1) SAS 28, par. 4 (AU 554.04) for supplementary information on the effects of changing prices?	—	—	—
(2) SAS 33, par. 6 (AU 555.06) for supplementary oil and gas reserve information?	—	—	—
[SAS 27, pars. 8-11 (AU 553.08-.11)]			
16. If a report on internal accounting control is to be issued[1] is the appropriate form used for:			
a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specified period of time? [SAS 30, pars. 37-46 (AU 642.37-.46)]	—	—	—
b. Report for restricted use of management, specified regulatory agencies, or other specified third parties based solely on a study and evaluation made as part of an audit of financial statements but not sufficient for expressing an opinion on the system? [SAS 30, pars. 47-53 (AU 642.47-.53)]	—	—	—
c. Report on all or part of an entity's system for restricted use of management or specified regulatory agencies, based on the regulatory agencies' pre-established criteria? [SAS 30, pars. 54-59 (AU 642.54-.59)]	—	—	—
d. Other special purpose reports on all or parts of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties? [SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]	—	—	—
17. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually,			

[1] Material weaknesses in internal accounting control that have not been corrected before they come to the auditor's attention must be communicated, preferably in writing, to senior management and the board of directors or its audit committee. [SAS 20, par. 4 (AU 323.04)]

	Yes	No	N/A
complete audited financial statements with a regulatory agency, does the auditor's report indicate:			
a. That he has examined and expressed an opinion on the complete financial statements?	—	—	—
b. The date of his report on the completed financial statements?	—	—	—
c. The type of opinion expressed?	—	—	—
d. Whether, in his opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived? [SAS 42, par. 5 (AU 552.05)]	—	—	—
18. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express an adverse opinion on the condensed financial statements because of inadequate disclosure? [SAS 2, par. 17 (AU 509.17); SAS 42, par. 7, footnote 6 (AU 552.09, footnote 6)]	—	—	—
19. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:			
a. That he has examined and expressed an opinion on the complete financial statements?	—	—	—
b. The type of opinion expressed?	—	—	—
c. The specific data on which he is reporting?	—	—	—
d. Whether, in his opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the completed financial statements from which it has been derived? [SAS 42, par. 9 (AU 552.09)]	—	—	—
20. If the selected financial data for any of the years presented are derived from financial state-			

	Yes	No	N/A
ments that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]	—	—	—

The next page is 8301.

AAM Section 8300

Accountants' Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist [1]

.01 This checklist has been developed by the staff of the technical information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 8001 is incorporated herein by reference.

.02 Explanation of references:

SSARS = Statement on Standards for Accounting and Review Services
(AR) = Reference to section number in *AICPA Professional Standards* (vol. 2) of SSARS cited.

.03 Checklist Questionnaire

	Yes	No	N/A
1. Is the report appropriately worded?	—	—	—
a. For compiled financial statements does the report state that:			
• A compilation has been performed in accordance with standards established by the American Institute of Certified Public Accountants?	—	—	—
• A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)? [See SSARS No. 3, par. 3 (AR 300.03) for different wording that may be used when the financial statements are included in a prescribed form and the form or related instructions call for departure from generally accepted accounting principles.]	—	—	—
• The financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them?	—	—	—
[SSARS No. 1, par. 14 (AR 100.14); SSARS No. 5, par. 1 (AR 500.01)]			

[1] A nonpublic entity is any entity other than (a) one whose securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) one that makes a filing with a regulatory agency in preparation for the sale of any class of its securities in a public market, or (c) a subsidiary, corporate joint venture, or other entity controlled by an entity covered by (a) or (b) (SSARS No. 2, par. 1, (AR section 200.01)). This matter is discussed further in Accounting and Review Services Interpretation No. 2 of SSARS No. 1, "Financial Statements Included in SEC Filings," (AR section 9100.03-.05).

	Yes	No	N/A
b. For reviewed financial statements does the report state that:			
• A review was performed in accordance with standards established by the American Institute of Certified Public Accountants?	—	—	—
• All information included in the financial statements is the representation of the management (owners) of the entity?	—	—	—
• A review consists principally of inquiries of company personnel and analytical procedures applied to financial data?	—	—	—
• A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed?	—	—	—
• The accountant is not aware of any material modification that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, with another comprehensive basis of accounting, other than those modifications, if any, indicated in his report? [SSARS No. 1, par. 32 (AR 100.32)]	—	—	—
c. For both compiled and reviewed financial statements, does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS No. 1, pars. 14 & 32 (AR 100.14 & 100.32)]	—	—	—
2. For compiled financial statements that contain departures [2] from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting:			
a. If the departure is the omission in compiled financial statements of substantially all required disclosures does the accountant's report clearly indicate such omission? [SSARS No. 1, pars. 19 & 21 (AR 100.19 & 100.21)]	—	—	—
b. If compiled financial statements that omit substantially all of the disclosures required			

[2] Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS No. 3 [AR 300] compilation report on financial statements included in a prescribed form.

	Yes	No	N/A
by generally accepted accounting principles include disclosures about only a few matters in the form of notes to such financial statements, are such disclosures labeled "Selected Information—Substantially All Disclosures Required by Generally Accepted Accounting Principles (or, where applicable, another comprehensive basis of accounting) Are Not Included"? [SSARS No. 1, par. 19 (AR 100.19)]	—	—	—
c. If compiled financial statements that omit substantially all required disclosures are prepared on a basis of accounting other than generally accepted accounting principles, and if such financial statements do not include disclosure of the basis of accounting used, does the accountant's report disclose the basis of accounting? [SSARS No. 1, par. 20 (AR 100.20)]	—	—	—
d. If compiled financial statements contain other departure(s) from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	—	—	—
(1) If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
(2) If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
(3) If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
3. For reviewed financial statements, that contain departures from generally accepted accounting principles or, where applicable, another comprehensive basis of accounting (including the omission of required disclosures), did the accountant modify his report to disclose the departure? [SSARS No. 1, par. 39 (AR 100.39)]	—	—	—

	Yes	No	N/A
a. If yes, did the accountant's modified report disclose the departure in a separate paragraph? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
b. If the effects of the departure on the financial statements have been determined by management or are known as a result of the accountant's procedures, are these effects also disclosed in the modified report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
c. If the effects of the departure on the financial statements have not been determined, has the accountant stated this in his report? [SSARS No. 1, par. 40 (AR 100.40)]	—	—	—
4. If the accountant is not independent with respect to the entity for which he has compiled financial statements, did the accountant state in the last paragraph of his report, "I am (we are) not independent with respect to XYZ company"?	—	—	—
(The accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he is not independent.) [SSARS No. 1, pars. 22 & 38 (AR 100.22 & 100.38)]			
5. Is the report dated?	—	—	—
6. a. Does each page of the financial statements compiled by the accountant include a reference such as "See Accountants Compilation Report"? [SSARS No. 1, par. 15 (AR 100.15)] or	—	—	—
b. Does each page of the financial statements reviewed by the accountant include a reference such as "See Accountants Review Report"? [SSARS No. 1, par. 34 (AR 100.34)]	—	—	—
7. When accompanying information is presented with the financial statements, did the accountant clearly indicate his degree of responsibility with respect to such information as follows:			
a. If the basic financial statements were reviewed, was the degree of responsibility disclosed in the report or in a separate report on the other data that states:			

	Yes	No	N/A
• The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles or, where applicable, another comprehensive basis of accounting, and either:	—	—	—
• The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and the accountant did not become aware of any material modifications that should be made to such data, or	—	—	—
• The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review, and the accountant does not express an opinion or any other form of assurance on such data. [SSARS No. 1, par. 43 (AR 100.43)]	—	—	—
b. If the accountant has compiled both the basic financial statements and other data which is presented for supplementary analysis purposes, does the compilation report also include the other data? [SSARS No. 1, par. 43 (AR 100.43)]	—	—	—
8. If an audit engagement has been changed to a review or compilation, does the report omit reference to: a) the original engagement, b) any auditing procedures that may have been performed, c) any scope limitation that resulted in the changed engagement? [SSARS No. 1, par. 49 (AR 100.49)]	—	—	—
9. If comparative financial statements are presented, does the accountant's report cover each period presented? [SSARS No. 2, par. 2 (AR 200.02)]	—	—	—

	Yes	No	N/A
10. Is the report appropriate for the current status of the entity? [SSARS No. 2, pars. 31 & 32 (AR 200.31 & 200.32)]	—	—	—
11. Does each page of the comparative financial statements compiled or reviewed include a reference such as "See Accountant's Report"? [SSARS No. 2, par. 6 (AR 200.06)]	—	—	—
12. If compiled financial statements which omit substantially all of the disclosures required by generally accepted accounting principles are included among the comparative financial statements, do all the periods presented also omit such disclosures and does the accountant's compilation report include an additional paragraph which indicates:			
• The nature of the previous service rendered (compilation, review or audit)?	—	—	—
• Date of the previous report?	—	—	—
• Appropriate language in accordance with SSARS No. 1, paragraphs 19-20 and SSARS No. 2, paragraph 30? [SSARS No. 1, pars. 19-21 (AR 100.19-.21); [SSARS No. 2, pars. 5 & 29-30 (AR 200.05 & 200.29-.30)]	—	—	—
13. If the level of service performed by the continuing accountant on the current-period financial statements is the same or higher than that performed on the financial statements of the prior period presented, has the continuing accountant's report on the prior period been updated? [SSARS No. 2, pars. 8-10 (AR 200.08-.10)]	—	—	—
14. If the level of service performed by the continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented,			
a. Does the report on the current period include a separate paragraph which describes the responsibility assumed for the prior period?	—	—	—
or			
b. Is the report on the current period accompanied by or combined with a reissued report			

	Yes	No	N/A
on the financial statements of the prior period presented? [SSARS No. 2, pars. 8 & 11-12 (AR 200.08 & 200.11-.12)]	—	—	—
15. If the report requires a changed reference to a departure from generally accepted accounting principles regarding the prior period presented, does the explanatory paragraph in the report include:			
• The date of the previous report?	—	—	—
• Description of the circumstances or events underlying the change?	—	—	—
• Indication, if applicable, that the prior-period financial statements have changed? [SSARS No. 2, pars. 14-15 (AR 200.14-.15)]	—	—	—
16. If the predecessor accountant does not reissue his compilation or review report on the prior-period financial statements, has the successor:			
a. Made appropriate reference in his report to the predecessor's report in accordance with SSARS No. 2?	—	—	—
or			
b. Performed a compilation, review, or audit of the statements of the prior period and reported on them accordingly? [SSARS No. 2, pars. 16-19 (AR 200.16-.19)]	—	—	—
17. If the financial statements of the prior period presented have been changed, has the predecessor or successor reported on them as presented? [SSARS No. 2, pars. 25-26 (AR 200.25-.26)]	—	—	—
18. If the current-period financial statements were compiled or reviewed and the financial statements of the prior period presented were audited and the audit report has not been reissued, does the current-period report include a separate paragraph which contains the following:			
• Statement that the prior-period financial statements were examined previously?	—	—	—
• Date of the previous report?	—	—	—
• Type of opinion express previously?	—	—	—
• If the opinion was other than unqualified, the substantive reasons therefor?	—	—	—

	Yes	No	N/A
• That no auditing procedures were performed after the date of the previous report?	—	—	—

[SSARS No. 2, par. 28 (AR 200.28)]

[For guidance on situations when the current period is audited and the prior period is compiled or reviewed, see the Statement on Auditing Standards No. 26 (AU 504).]

The next page is 8401.

AAM Section 8400

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the technical information division of the AICPA as a nonauthoritative practice aid. Accordingly, the notice on page 8001 is incorporated herein by reference.

.02 Explanation of references:

ARB = Accounting Research Bulletin

APB = Accounting Principles Board Opinion

SFAS = Statement of Financial Accounting Standards

SAS = Statement on Auditing Standards

FASBI = Financial Accounting Standards Board Interpretation

TB = Technical Bulletin issued by the staff of the FASB [1]

(AC) = Reference to section number in *FASB Accounting Standards Current Text.*

(AU) = Reference to section number in *AICPA Professional Standards* (vol. 1) of SAS cited.

.03 This checklist is organized into the following classifications:

- General
  - A. Titles and References
  - B. Disclosure of Accounting Policies
  - C. Accounting Changes
  - D. Comparative Financial Statements
  - E. Business Combinations
  - F. Consolidations
  - G. Related Party Transactions and Economic Dependency
  - H. Foreign Currency
  - I. Nonmonetary Transactions
  - J. Contingencies and Commitments
  - K. Subsequent Events
  - L. Pension Plans
  - M. Development Stage Enterprises
  - N. Other Matters

[1] The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

- Balance Sheet
  - A. General
  - B. Cash
  - C. Marketable Securities
  - D. Receivables
  - E. Inventories
  - F. Investments
  - G. Property and Equipment
  - H. Lessors
  - I. Other Assets and Deferred Charges
  - J. Current Liabilities
  - K. Notes Payable and Other Debt
  - L. Lessees
  - M. Other Liabilities and Deferred Credits
  - N. Stockholders' Equity
  - O. Changes in Stockholders' Equity

- Income Statement
  - A. Revenue and Expenses
  - B. Income Taxes
  - C. Discontinued Operations
  - D. Extraordinary Items
  - E. Other

- Statement of Changes in Financial Position
  - A. Format
  - B. Content

	Yes	No	N/A
.04 General			
A. Titles and References			
1. Are the financial statements suitably titled? [SAS 14, par. 7 (AU 621.07)]	—	—	—
2. Does each statement include a general reference to the notes that are an integral part of the financial statement presentation? [APB Statement 4, Ch. 2, par. 10]	—	—	—
3. Are the notes referenced to and from the applicable statement classification or appropriately captioned? [APB Statement 4, Ch. 2, par. 10]	—	—	—
B. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	—	—	—

	Yes	No	N/A
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods?	—	—	—
[APB 22, par. 12 (AC A10.105); TB 81-1, par. 7 (AC I86.502); TB 82-1, par. 7 (AC I23.513)]			
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided?	—	—	—
[APB 22, par. 14 (AC A10.107)]			
C. Accounting Changes			
1. For an accounting change does disclosure in the period of the change include:			
a. Nature of the change?	—	—	—
b. Justification for the change including a clear explanation why the newly adopted principle is preferable?	—	—	—
c. Effect on Income?	—	—	—
[APB 20, par. 17 (AC A06.113)]			
2. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 32 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle?	—	—	—
[SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112)]			
3. If appropriate, is the cumulative effect of an accounting change shown separately between the captions "extraordinary items" and "net income?"	—	—	—
[APB 20, pars. 18-26 (AC A06.114-.122 and E09.104)]			
4. If prior periods are presented, are they restated for the following special changes in accounting principles:			
a. Change from LIFO method of inventory pricing to another method?	—	—	—
b. Change in method of accounting for long term construction type contracts?	—	—	—

	Yes	No	N/A
c. Change to or from the full cost method of accounting in extractive industries?	—	—	—
[APB 20, pars. 27-28 (AC A06.123-.124)]			
5. Is the correction of an error shown as a prior adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	—	—	—
b. Effect of its correction on income before extraordinary items, net income (and related per share amounts)?	—	—	—
[APB 20, pars. 36-37 (AC A35.105); SFAS 16, par. 11 (AC A35.103)]			
D. Comparative Financial Statements			
1. Have comparative statements been considered?	—	—	—
[ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]			
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance?	—	—	—
[ARB 43, Ch. 2A, par. 2 (AC F43.102)]			
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?	—	—	—
[ARB 43, Ch. 2A, par. 2 (AC F43.102)]			
E. Business Combinations			
1. If a business combination occurred during the period and met the specified conditions for a pooling of interests [APB 16, pars. 45-48 (AC B50.104-.107)]:			
a. Has the required accounting method been applied?	—	—	—
[APB 16, pars. 50-62 (AC B50.109-.121)]			
b. Do the statements and notes include the required disclosures?	—	—	—
[APB 16, pars. 63-65 (AC B50.122-.124)]			

Yes No N/A

2. If a business combination does not meet the specified conditions for a pooling of interests:
   a. Has the combination been accounted for by the purchase method? — — —

      [APB 16, pars. 66-94 (AC B50.125-.147 and B50.159-.163); SFAS 38 (AC B50.148-.150 and B50.166); TB81-2, par. 4 (AC B50.650)]

      [FASBI 4 (AC B50.151-.152) concerns research and development activities of an acquired subsidiary]

   b. Do the statements and notes include the required disclosures? — — —

      [APB 16, pars. 95-96 (AC B50.164-.165)]

F. Consolidations

1. If consolidated statements are presented:
   a. Is the consolidation policy disclosed? — — —

      [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

   b. Are intercompany balances and transactions eliminated? — — —

      [ARB 51, par. 6 (AC C51.109 and Re6.110)]

   c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? — — —

      [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18-20 (AC I89.112-.114); FASBI 13 (AC I89.120-.122)]

2. Are the accounts of subsidiaries whose principal business activity is leasing property or facilities to the parent or other affiliated companies consolidated? — — —

   [SFAS 13, par. 31 (AC L10.127)]

3. Are current and noncurrent marketable equity securities portfolios of consolidated entities treated as single current and noncurrent consolidated portfolios? — — —

   [SFAS 12, pars. 9 & 15 (AC I89.103 and I89.109)]

4. If the parent company includes realized gains or losses of marketable securities in net income and a consolidated subsidiary does not, has the sub-

	Yes	No	N/A
sidiary's accounting treatment for marketable securities been conformed with that of the parent?	—	—	—
[SFAS 12, par. 18 (AC I89.112)]			
5. If the parent follows specialized accounting practices for marketable securities and the consolidated subsidiaries do not, are the subsidiaries' current and noncurrent portfolios consolidated as separate current and noncurrent portfolios exclusive of the parent and is the information required by SFAS 12, par. 12 disclosed?	—	—	—
[SFAS 12, pars. 12 & 19 (AC I89.106 and I89.113)]			
6. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?	—	—	—
[SFAS 12, par. 20 (AC I89.114)]			
7. For undistributed earnings of a consolidated subsidiary and/or corporate joint venture, for which income taxes have not been accrued, do disclosures include:			
a. Declaration of either intention to reinvest such earnings to support the conclusion that their remittance has been indefinitely postponed, or that the undistributed earnings will be remitted in the form of a tax free liquidation?	—	—	—
b. Cumulative amount of undistributed earnings on which the parent company has not recognized income taxes?	—	—	—
[APB 23, pars. 14 & 18 (AC I42.109 and I42.112)]			
G. Related Party Transactions and Economic Dependency			
1. For related party transactions do disclosures include:			
a. The nature of the relationship(s) involved (e. g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	—	—	—
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	—	—	—
c. The dollar amounts of transactions for each of the periods for which income statements			

Yes No N/A

are presented and the effects of any change in the method of establishing the terms from that used in the preceding period? — — —

d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? — — —

[SFAS 57, pars. 2-4 (AC R36.102-.104)]

2. Is information about economic dependency disclosed when necessary for a fair presentation? — — —

[SFAS 21, par. 9 (AC S20.103)]

3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous? — — —

[SFAS 57, pars. 2 & 4 (AC R36.102 and R36.104)]

H. Foreign Currency

1. Is the aggregate exchange gain or loss included in net income for the period disclosed? — — —

[SFAS 52, par. 30 (AC F60.140)]

2. Is an analysis of changes during the period in the separate component of equity for cumulative translation adjustments included, and does it disclose:

a. Beginning and ending amount of cumulative translation adjustments? — — —

b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances? — — —

c. The amount of income taxes for the period allocated to translation adjustments? — — —

d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially

	Yes	No	N/A
complete liquidation of an investment in a foreign entity?	—	—	—
[SFAS 52, par. 31 (AC F60.141)]			
3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed if significant?	—	—	—
[SFAS 52, par. 32 (AC F60.142)]			
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant?	—	—	—
[ARB 43, Ch. 12, par. 5 (AC F60.144)]			
5. Are foreign operations adequately disclosed?	—	—	—
[ARB 43, Ch. 12, pars. 8-9 (AC C51.105-.106)]			
I. Nonmonetary Transactions			
1. Are nonmonetary transactions accounted for in conformity with APB 29?	—	—	—
[APB 29, pars. 18-27 (AC C11.101 and N35.105-.113)]			
2. Do disclosures for nonmonetary transactions during the period include:			
a. Nature of the transactions?	—	—	—
b. Basis of accounting for the assets transferred?	—	—	—
c. Gains or losses recognized on the transfers?	—	—	—
[APB 29, par. 28 (AC C11.102 and N35.120); FASBI 30 (AC N35.114-.119)]			
J. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading?	—	—	—
[SFAS 5, par. 9 (AC C59.108)]			
2. For loss contingencies not accrued do disclosures indicate:			
a. Nature of the contingency?	—	—	—
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made?	—	—	—
[SFAS 5, par. 10 (AC C59.109 and C59.111)]			

Yes No N/A

3. Are the nature and amount of guarantees disclosed (for example, guarantee of indebtedness of others, obligations of banks under standby letters of credit, guarantees to repurchase receivables that have been sold or otherwise assigned)? — — —

   [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]

4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? — — —

   [SFAS 5, par. 17 (AC C59.118)]

5. Is there adequate disclosure of commitments such as those for capital expenditures, restrictive covenants in financing agreements, inventory purchase agreements, and employment contracts? — — —

   [SFAS 5, pars. 18-19 (AC C59.120)]

6. For long-term unconditional purchase obligations associated with suppliers' financing that are not recognized in the balance sheet, are the following disclosed:

   a. Nature of the obligation(s)? — — —

   b. Amount of the fixed and determinable obligation in the aggregate and for each of the next five years? — — —

   c. Description of any portion of the obligation that is variable? — — —

   d. Purchases under the obligation(s) for each year for which an income statement is presented? — — —

   [SFAS 47, par. 7 (AC C32.102)]

K. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? — — —

   [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, 560.07 and 561.01-.09 (AU 560.03-.04, 560.07 and 561.01-.09)]

2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subse-

	Yes	No	N/A
quent to that date adequately disclosed to keep the financial statements from being misleading?	—	—	—
[SFAS 5, par. 11, (AC C59.112); APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05-.07, 560.09 and 561.01-.09 (AU 560.05-.07, 560.09 and 561.01-.09)]			
L. Pension Plans [2]			
1. If there is a pension plan (defined benefit or otherwise) do disclosures include:			
a. Statement on existence of the plan(s) and identification or description of the employee groups covered?	—	—	—
b. Statement of the entity's accounting and funding policies?	—	—	—
c. Provision for pension cost for the period(s)?	—	—	—
d. Nature and effect of significant matters affecting comparability for all periods presented?	—	—	—
[SFAS 36, par. 7 (AC P15.130); TB 81-3, pars. 4-6 (AC P15.503-.505)]			
2. For defined benefit pension plans [3] do disclosures also include:			
a. Actuarial present value of vested accumulated plan benefits?	—	—	—
b. Actuarial present value of nonvested accumulated plan benefits?	—	—	—
c. Plan's net assets available for benefits?	—	—	—
d. Assumed rates of return used in determining the actuarial present value of vested and nonvested accumulated plan benefits?	—	—	—
e. Date as of which the benefit information was determined?	—	—	—
[SFAS 36, par. 8 (AC P15.131)]			

[2] For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe5).

[3] For plans for which this information is not available, the entity may continue to comply with the disclosure requirements originally contained in APB Opinion 8 (AC P15) before amendment by SFAS 36 (AC P15.130-.132 and P15.134). Plans for which this information is not available are expected to be only those plans that do not report such information to certain governmental agencies pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).

Yes No N/A

M. Development Stage Enterprises

1. Do financial statements of development stage enterprises:

   a. Present financial position, changes in financial position, and results of operations in conformity with generally accepted accounting principles that apply to established operating enterprises? — — —

      [SFAS 7, par. 10 (AC De4.105); FASBI 7 (AC De4.106)]

   b. Disclose amounts of cumulative revenue, expenses, net losses, changes in financial position and stockholders' equity since inception? — — —

      [SFAS 7, par. 11 (AC De4.107)]

   c. Identify the enterprise as a "development stage enterprise" and include a description of the nature of its development stage activities? — — —

      [SFAS 7, par. 12 (AC De4.108)]

2. For the first fiscal year in which an enterprise is no longer in the development stage, is there disclosure that in prior years it had been a development stage enterprise? — — —

   [SFAS 7, par. 13 (AC De4.109)]

N. Other Matters

1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information? — — —

   [SFAS 14 (AC S20); SFAS 24 (AC S20.109-.110); SFAS 30 (AC S20.145); and TBs 79-4, 79-5 & 79-8 (AC S20.501-.507)]

2. If required, is supplementary information about the effects of changing prices presented? — — —

   [SFAS 33 (AC C27); SFAS 70 (AC C27)]

.05 Balance Sheet

A. General

1. For classified balance sheets are assets and liabilities segregated into current and non-current

	Yes	No	N/A
classifications with totals presented for current assets and current liabilities?	—	—	—
[ARB 43, Ch. 3A, (AC B05.101 and B05.103-.109); SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.138-.139); TB 79-3 (AC B05.501-.503)]			
2. Are assets not expected to be realized during the current operating cycle classified as non-current?	—	—	—
[ARB 43, Ch. 3A, pars. 5-6 (AC B05.106-.107)]			
3. Are valuation allowances contra to such assets as receivables and investments shown as deductions from their related assets with appropriate disclosure?	—	—	—
[APB 12, par. 3 (AC V18.102)]			
B. Cash			
1. Is restricted cash appropriately segregated from cash available for current operations?	—	—	—
[ARB 43, Ch. 3A, par. 6 (AC B05.107)]			
2. Are restrictions on cash appropriately disclosed?	—	—	—
[SFAS 5, pars. 18-19 (AC C59.120)]			
C. Marketable Securities			
1. For entities in industries not having certain specialized practices for marketable securities:			
a. Are the carrying amounts of the marketable equity securities portfolios (current and non-current) each at the lower of aggregate cost or market?	—	—	—
[SFAS 12, pars. 8 & 15 (AC I89.102 and I89.109)]			
b. Is the amount by which aggregate cost exceeds aggregate market value of a portfolio accounted for as a valuation allowance?	—	—	—
[SFAS 12, par. 8 (AC I89.102); FASBI 12; FASBI 13 (AC I89.120-.122)]			
c. Are changes in the valuation allowances appropriately accounted for?	—	—	—
[SFAS 12, par. 11 (AC I89.105)]			

	Yes	No	N/A
d. Are realized gains and losses included in net income of the period in which they occur? [SFAS 12, par. 11 (AC I89.105)]	—	—	—
2. Are marketable equity securities portfolios of consolidated affiliates appropriately treated in consolidation? [SFAS 12, pars. 9, 15 & 18-20 (AC I89.103, I89.109 and I89.112-.114); FASBI 13 (AC I89.120-.122)]	—	—	—
3. Are marketable equity securities portfolios of nonconsolidated subsidiaries accounted for by the equity method appropriately treated? [SFAS 12, pars. 9 & 18-20 (AC I89.103 and I89.112-.114); TB 79-19, par. 6 (AC I82.514)]	—	—	—
4. If particular marketable securities for which changes in carrying amounts are included in stockholders equity have declines in market value below cost, and the declines are "judged to be other than temporary," is the cost basis written down and the write down accounted for as a loss? [SFAS 12, par. 21 (AC I89.115); FASBI 11, (AC I89.115-.116)]	—	—	—
5. Are income tax effects for unrealized gains or losses on marketable securities:			
a. Recognized in conformity with APB No. 11 (AC I24)?	—	—	—
b. For unrealized capital losses are tax benefits recognized only when there is "assurance beyond a reasonable doubt" that the benefit will be realized by an offset of loss against capital gains? [SFAS 12, par. 22 (AC I89.117)]	—	—	—
6. For marketable equity securities do disclosures include:			
a. For each balance sheet presented, aggregate cost and market value (each segregated between current and noncurrent portfolios when applicable) with identification of which is the carrying amount? [SFAS 12, par. 12a (AC I89.106a)]	—	—	—

	Yes	No	N/A
b. For the latest balance sheet presented, gross unrealized gains and gross unrealized losses (each segregated between current and non-current portfolios when applicable)? [SFAS 12, pars. 12b & 16a (AC I89.106b and I89.110a)]	—	—	—
c. The following information for each period for which an income statement is presented:			
(1) Net realized gain or loss included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	—	—	—
(2) Basis on which cost was determined in computing realized gain or loss (e. g. average cost, FIFO)? [SFAS 12, par. 12c (AC I89.106c)]	—	—	—
(3) The change in valuation allowance(s) included in the equity section of the balance sheet during the period and when a classified balance sheet is presented, the amount of such change included in determination of net income? [SFAS 12, par. 12c (AC I89.106c)]	—	—	—
7. Are significant net realized and net unrealized gains and losses that arose after the latest balance sheet date but before issuance of the financial statements disclosed in the notes? [SFAS 12, pars. 13 & 17 (AC I89.107 and I89.111); FASBI 11 (AC I89.115-.116); FASBI 13 (AC I89.120-.122)]	—	—	—
8. Are valuation allowances shown as deductions from their related portfolios with appropriate disclosure? [APB 12, par. 3 (AC V18.102)]	—	—	—
D. Receivables			
1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]	—	—	—
2. Are unbilled receivables (e. g. unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]	—	—	—

	Yes	No	N/A
3. Are unearned finance charges and interest included in the face amounts of receivables shown as a deduction from the related receivables?	—	—	—
[APB 6, par. 14 (AC B05.105)]			
4. If a note is non-interest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	—	—	—
b. Does the disclosure include the effective interest rate and face amount of the note?	—	—	—
c. Is amortization of discount or premium reported as interest in the income statement?	—	—	—
[APB 21, par. 16 (AC I69.109)]			
5. Are allowances for uncollectible receivables shown as deductions from the related receivables?	—	—	—
[APB 12, par. 3 (AC V18.102)]			
6. For troubled debt restructurings are the following disclosed by major category of receivables as of each balance sheet presented:			
a. Aggregate recorded investment?	—	—	—
b. Gross interest income that would have been recorded if receivables had been current per their original terms?	—	—	—
c. Amount of interest income included in net income?	—	—	—
d. Amounts of any commitments to lend additional funds to debtors owing restructured troubled receivables?	—	—	—
[SFAS 15, pars. 40-41 (AC D22.136-.137); TBs 79-6 and 79-7 (AC D22.501-.505)]			
7. For transfers of receivables with recourse that are reported as sales, are the following disclosed:			
a. The proceeds to the transferors during each period for which an income statement is presented?	—	—	—
b. The balance of the receivables transferred that remain uncollected at the date of each balance sheet presented, if such information is available?	—	—	—
[SFAS 77, par. 9 (AC R20.109)]			

Yes No N/A

E. Inventories

1. Are the major classes of inventory disclosed (e. g. finished goods, work in process, raw materials)? — — —

   [ARB 43, Ch. 3A, pars. 4 & 9 (AC B05.105); ARB 43, Ch. 4, Statement 1, par. 3 (AC I78.102-.103)]

2. Is the method of determining inventory cost (e. g. LIFO, FIFO) disclosed? — — —

   [ARB 43, Ch. 3A, par. 9]

3. Is the basis for stating inventory amounts disclosed (e. g. lower of cost or market)? — — —

   [ARB 43, Ch. 4 Statements 3-9, pars. 4-16 (AC I78.104-.117 and I78.119-.120); APB 22, par. 13 (AC A10.106)]

4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? — — —

   [APB 12, par. 3 (AC V18.102)]

F. Investments

1. Is the equity method used to account for investments in common stock of:

   a. Unconsolidated subsidiaries? — — —

      [APB 18, par. 14 (AC I82.102)]

   b. Corporate joint ventures? — — —

      [APB 18, par. 16 (AC I82.103)]

   c. Investees in which the entity has "ability to exercise significant influence" (generally presumed to be 20% or more of the voting stock)? — — —

      [APB 18, par. 17 (AC I82.104); FASBI 35, pars. 2-5 (AC I82.106-.108)]

2. Is the equity method appropriately applied? — — —

   [APB 18, par. 19 (AC I82.109); TB 79-19, par. 6 (AC I82.514)]

3. Are the appropriate disclosures made for investments in common stock accounted for by the equity method? — — —

   [APB 18, par. 20 (AC I82.110)]

	Yes	No	N/A
G. Property and Equipment			
1. For depreciable assets, do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period?	—	—	—
[APB 12, par. 5a (AC D40.105a)]			
b. Balances of major classes of depreciable assets by nature or function?	—	—	—
[APB 12, par. 5b (AC D40.105b)]			
c. Accumulated depreciation, either by major classes of assets or in total?	—	—	—
[APB 12, par. 5c (AC D40.105c)]			
d. The method or methods used in computing depreciation with respect to major classes of depreciable assets?	—	—	—
[APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)]			
e. Investment credit, method followed and amounts involved when material?	—	—	—
[APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153-.154, I32.107, I32.114-.115, I32.117-.120 and I37.109)]			
2. Are net assets and liabilities of discontinued segments segregated from the assets and liabilities of continuing operations?	—	—	—
[APB 30, par. 18(d) (AC I13.108d)]			
3. Are capitalized interest costs appropriately determined and reported?	—	—	—
[SFAS 34, pars. 6-23 (AC I67.102-.103, I67.105-.107 and I67.109-.118) as amended by SFAS 42, par. 4 (AC I67.104); SFAS 58, pars. 5-7 (AC I67.105c, I67.106c-.106e and I67.117); SFAS 62, par. 5 (AC I67.106)]			
H. Lessors			
1. For sales-type and direct financing leases do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	—	—	—
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	—	—	—

	Yes	No	N/A
c. Total contingent rentals included in income for each period for which an income statement is presented?	—	—	—
d. For direct financing leases, the amount of unearned income included in income to offset initial direct costs charged against income for each period for which an income statement is presented?	—	—	—
[SFAS 13, par. 23a (AC L10.119a)]			
2. For operating leases do disclosures include:			
a. Cost and carrying amount of property on lease or held for leasing by major classes and the amount of accumulated depreciation as of the date of the latest balance sheet presented?	—	—	—
b. Minimum future rentals on noncancelable leases as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	—	—	—
c. Total contingent rentals included in income for each period for which an income statement is presented?	—	—	—
[SFAS 13, par. 23b (AC L10.119b)]			
3. Do disclosures include a general description of the lessor's leasing arrangements?	—	—	—
[SFAS 13, par. 23c (AC L10.119c)]			
[For amendments of SFAS 13 see SFASs 17, 22, 23, 26, 27, 28 and 29; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]			
4. Are leveraged leases appropriately accounted for and reported?	—	—	—
[SFAS 13, pars. 41-47 (AC L10.143-.149)]			
I. Other Assets and Deferred Charges			
1. Are the costs of intangible assets acquired from other entities recorded as assets?	—	—	—
[APB 17, pars. 24-26 (AC I60.105-.107)]			
2. Are the costs of developing, maintaining or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to the entity as a whole, expensed when incurred?	—	—	—
[APB 17, par. 24 (AC I60.105)]			

	Yes	No	N/A
3. Are issue costs of debt reported as deferred charges?	—	—	—
[APB 21, par. 16 (AC I69.109)]			
4. Do disclosures include the method and period of amortization?	—	—	—
[APB 17, pars. 27-31 (AC I60.108-.112); APB 22, par. 13 (AC A10.106)]			
5. Are deferred charges related to income tax timing differences segregated into appropriate current and noncurrent classifications?	—	—	—
[APB 11, par. 57 as amended by SFAS 37, par. 4 (AC I28.102)]			
J. Current Liabilities			
1. Do current liabilities include:			
a. Obligations for items which have entered the operating cycle?	—	—	—
b. Collections received in advance of the delivery of goods or performance of services?	—	—	—
c. Debts which arise from operations directly related to the operating cycle?	—	—	—
d. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short time period?	—	—	—
e. Obligations that, by their terms, are due on demand or will be due within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period?	—	—	—
[ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109); SFAS 78, par. 5 (AC B05.109A and B05.118)]			
2. Do current liabilities exclude short-term obligations that the entity intends to refinance on a long-term basis, provided the entity has demonstrated the ability to consummate the long-term financing?	—	—	—
[SFAS 6, pars. 8-14 (AC B05.112-.116); FASBI 8 (AC B05.117 and B05.138-.139)]			
K. Notes Payable and Other Debt			
1. Is there adequate disclosure of interest rates, maturities, and other terms and conditions provided in loan agreements and bond indentures			

	Yes	No	N/A
such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends?	—	—	—
[APB Statement No. 4, par. 199, R-9A; SFAS 5, pars. 18-19 (AC C59.120)]			
2. Are the combined aggregate amount of maturities and sinking fund requirements for all long-term borrowings disclosed for each of the five years following the date of the latest balance sheet presented?	—	—	—
[SFAS 47, par. 10 (AC C32.105)]			
3. If the note is noninterest bearing or has an inappropriate stated interest rate:			
a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?	—	—	—
b. Does the disclosure include the effective interest rate and face amount of the note?	—	—	—
c. Is amortization of the discount or premium reported as interest in the income statement?	—	—	—
d. Are issue costs reported in the balance sheet as deferred charges?	—	—	—
[APB 21, par. 16 (AC I69.109)]			
4. Are conversion features appropriately accounted for and disclosed?	—	—	—
[APB 14, pars. 12, 16-18 (AC D10.103 and D10.105-.107); APB 15, par. 19 (AC E09.110)]			
5. Are current portions of debt obligations presented as current liabilities?	—	—	—
[ARB 43, Ch. 3A, pars. 7-8 (AC B05.108-.109)]			
6. If a short-term obligation is to be excluded from current liabilities per SFAS 6, do disclosures include:			
a. General description of the financing agreement?	—	—	—
b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued or expected to be issued as a result of the refinancing?	—	—	—
[SFAS 6, par. 15 (AC B05.118); FASBI 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501-.503)]			

	Yes	No	N/A
7. For troubled debt restructuring occurring during the current period do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement, or both?	—	—	—
b. Aggregate gain on restructuring of payables and the related income tax effect?	—	—	—
c. Aggregate net gain or loss on transfers of assets recognized during the period?	—	—	—
d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect?	—	—	—
[SFAS 15, par. 25 (AC D22.121)]			
8. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	—	—	—
b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?	—	—	—
[SFAS 15, par. 26 (AC D22.122)]			
9. Has debt, as required, been considered extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantee?	—	—	—
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote?	—	—	—
[SFAS 76, par. 3 (AC D14.102A)]			
10. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income?	—	—	—
[APB 26, pars. 20-21 (AC D14.103-.104); TB 80-1, pars. 3-4 (AC D14.503-.504)]			

	Yes	No	N/A
b. Identified as a separate or extraordinary item?	—	—	—
[SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)]			
11. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, do the disclosures include:			
a. A general description of the transaction?	—	—	—
b. The amount of debt that is considered extinguished as long as the debt remains outstanding?	—	—	—
[SFAS 76, par. 3c (AC D14.102Ac)]			
12. Are long-term obligations that are or will be callable by the creditor either because the debtor's violation of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, classified as current unless one of the following conditions is met:			
a. Has the creditor waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date?	—	—	—
b. If the obligation contains a grace period within which the debtor may cure the violation, is it probable that the violation will be cured within that period, thus preventing the violation from becoming callable?	—	—	—
[SFAS 78, par. 5 (AC B05.109A and B05.118)]			
L. Lessees			
1. For capital leases do disclosures include:			
a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented?	—	—	—
[SFAS 13, par. 16a (AC L10.112a(1)-(4))]			
b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value?	—	—	—
[SFAS 13, pars. 10 & 16a (AC L10.106, L10.112a(1)-(4))]			

c. Total of future minimum sublease rentals under noncancelable subleases as of the date of the latest balance sheet presented? — — —

[SFAS 13, par. 16a (AC L10.112a(1)-(4))]

d. Total contingent rentals actually incurred for each period for which an income statement is presented? — — —

[SFAS 13, par. 16a (AC L10.112a(1)-(4)) amended 10/1/79 by SFAS 29, par. 12]

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year do disclosures include:

a. Future minimum rental payments required as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years? — — —

b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented? — — —

[SFAS 13, par. 16b (AC L10.112b)]

3. For all operating leases do disclosures include: rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? — — —

[SFAS 13, par. 16c (AC L10.112c)]

4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:

a. Bases for determination of contingent rentals? — — —

b. Terms of any renewal or purchase options or escalation clauses? — — —

c. Restrictive covenants? — — —

[SFAS 13, par. 16d (AC L10.112d)]

[For amendments of SFAS 13 see SFASs 17, 22, 23, 26, 27, 28 and 29; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-11, 79-12, 79-13, 79-14, 79-15, 79-16, 79-17 and 79-18]

M. Other Liabilities and Deferred Credits

1. Are deferred credits related to income tax timing differences segregated into appropriate current and noncurrent classifications? — — —

[APB 11, par. 57 as amended by SFAS 37, par. 4 (AC I28.102)]

2. If the entity recognizes investment tax credits by the flow-through method, is the reduction in the tax basis of an asset caused by the investment tax credit reflected as a timing difference when computing deferred taxes? — — —

   [TB 83-1, par. 4 (AC I32.517)]

3. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS No. 5 and the amount can be reasonably estimated? — — —

Yes No N/A

[SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and C59.124-.127)]

4. Are liabilities appropriately accrued and reported for employees' compensation for future absences? — — —

   [SFAS 43, pars. 6-7 (AC C44.104 and C44.108)]

5. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? — — —

   [SFAS 74, par. 2 (AC C45.102)]

N. Stockholders' Equity

1. For each class of stock do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? — — —

   [APB Statement No. 4, par. 199, R-9A]

2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights? — — —

   [APB 15, par. 19 (AC E09.110)]

3. Are liquidation preferences of preferred stock issues prominently disclosed in the equity section of the balance sheet in the aggregate? — — —

   [APB 10, par. 10 (AC C16.101)]

4. For preferred stock do disclosures include:

   a. Aggregate or per share amounts at which shares may be called or are subject to redemption? — — —

   b. Aggregate and per share amounts of arrearages in cumulative preferred dividends? — — —

   [APB 10, par. 11 (AC C16.102)]

5. For stock option and stock purchase plans, do disclosures include:

   a. Number of shares under option? — — —

   b. Option price? — — —

   c. Number of shares as to which options are exercisable? — — —

	Yes	No	N/A
d. For shares exercised, the number of shares exercised and option price? [ARB 43, Ch. 13B, par. 15 (AC C47.123); APB 25, par. 19; FASBI 28 (AC C47.119-.122 and C47.138-.146); TB 82-2, pars. 10-12 (AC C47.513-.515)]	—	—	—
6. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]	—	—	—
7. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18-19 (AC C59.120)]	—	—	—
8. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]	—	—	—
9. Are stock subscriptions receivable appropriately identified and presented as a deduction from capital, or, if presented as an asset, stated separately, clearly labeled, and their status clearly described to distinguish them from any other type of assets?	—	—	—
10. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	—	—	—
O. Changes in Stockholders' Equity			
1. Are changes in the separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	—	—	—
2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	—	—	—
3. Are prior period adjustments limited to:			
a. Correction of an error(s) in financial statements of prior periods?	—	—	—

	Yes	No	N/A
b. Adjustments resulting from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries?	—	—	—
[SFAS 16, par. 11 (AC A35.103)]			
4. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?	—	—	—
[APB 9, par. 26 (AC A35.107)]			
5. For a correction of an error are the following disclosed in the period in which the error was discovered and corrected:			
a. Nature of the error in previously issued financial statements?	—	—	—
b. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)?	—	—	—
[APB 20, par. 37 (AC A35.105)]			

.06 Income Statement

A. Revenue and Expenses

	Yes	No	N/A
1. Are the important components of income separately disclosed, such as sales or other source of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes?	—	—	—
[APB Statement No. 4, Ch. 7, par. 198]			
2. Is revenue recognized when a sale is effected (in contrast to the installment method) with appropriate provision for uncollectible accounts?	—	—	—
[APB 10, par. 12 (AC R75.101 and R75.103)]			
3. For long-term construction-type contracts is the method of income recognition (percentage of completion or completed contract) disclosed?	—	—	—
[ARB 45, par. 15 (AC Co4.110 and Co4.112); APB 22, par. 13 (AC A10.106)]			
4. For marketable equity securities, are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income?	—	—	—
[SFAS 12, par. 12c (AC I89.106c)]			

	Yes	No	N/A
b. For entities with certain specialized accounting practices, the change in net unrealized gain or loss?	—	—	—
[SFAS 12, par. 16b (AC I89.110b)]			
c. Basis on which cost was determined in computing realized gain or loss?	—	—	—
[SFAS 12, par. 12c (AC I89.106c)]			
d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income?	—	—	—
[SFAS 12, par. 12c (AC I89.106c)]			
5. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties?	—	—	—
[APB 18, par. 19a (AC I82.109a)]			
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor?	—	—	—
[APB 18, pars. 19c & 19d (AC I82.109c and I82.109d)]			
c. Are income taxes of the investor's share of the investee's earnings appropriately accrued?	—	—	—
[APB 24, pars. 7-10 (AC I42.114-.116 and I42.119); FASBI 29 (I42.117-.118)]			
6. Are research and development costs charged to expense when incurred and appropriately disclosed?	—	—	—
[SFAS 2, pars. 12-16 (AC R50.108-.110); FASBI 4 (AC B50.151-.152); FASBI 6 (AC R50.105 and R50.114-.119); TB 79-2 (AC R50.501-.502); SFAS 68, par. 14 (AC R55.112)]			
7. Is the amount of interest cost incurred disclosed in the statements or notes thereto, and for an accounting period in which some interest cost is capitalized, the total amount thereof that has been capitalized?	—	—	—
[SFAS 34, par. 21 (AC I67.118)]			
8. Is discount or premium on notes receivable and payable amortized to result in a constant rate of			

	Yes	No	N/A
interest when applied to the amount outstanding at the beginning of any given period (the interest method) and reported as interest?	—	—	—
[APB 12, pars. 16-17 (AC I69.108); APB 21, pars. 15-16 (AC I69.108-.109)]			
9. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets?	—	—	—
[APB 12, par. 5 (AC D40.105)]			
10. Is the cost of the pension plan(s) accounted for in conformity with applicable pronouncements?	—	—	—
[APB 8, pars. 8-45 (AC P15.101, P15.103-.107, P15.109-.129 and P15.133); FASBI 3 (AC P15.108); SFAS 74, par. 3 (AC C45.103)]			
11. If there is a compensatory stock issuance plan:			
a. Is compensation expense accrued in the proper periods?	—	—	—
[APB 25, pars. 12-15 (AC C47.112-.115)]			
b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes?	—	—	—
[APB 25, pars. 16-18 (AC C47.116-.118); TB 82-2, pars. 8 and 13 (AC C47.511 and C47.516)]			
c. Are disclosures adequate?	—	—	—
[ARB 43, Ch. 13B, par. 15 (AC C47.123)]			
12. For deferred compensation agreements, are estimated amounts to be paid properly accrued?	—	—	—
[APB 12, pars. 6-8 (AC C38.101-.102)]			
13. For sales transactions in which the buyer has a right to return the product, is revenue recognized at time of sale only if all of the conditions specified in SFAS No. 48 are met?	—	—	—
[SFAS 48, pars. 6-8 (AC R75.107-.109)]			
14. For sales transactions such as those in which the seller agrees to repurchase the product, has consideration been given to whether the transaction is a product financing arrangement?	—	—	—
[SFAS 49, pars. 3-5 (AC D18.101-.103)]			

	Yes	No	N/A
15. For product financing arrangements that are in substance financing, is the transaction accounted for as a borrowing?	—	—	—
[SFAS 49, pars. 8-9 (AC D18.106-.107)]			
16. For sales of real estate, other than retail land sales, is revenue recognized on the full accrual basis only if all the conditions in SFAS 66, par. 5 are met?	—	—	—
[SFAS 66, par. 5 (AC Rel. 105)]			
17. If the enterprise accounts for its obligation under a research and development arrangement as a contract to perform research and development for others under SFAS 68, is there disclosure of:			
a. The terms of significant agreements under the research and development arrangement as of the date of each balance sheet presented?	—	—	—
b. The amount of compensation earned or costs incurred under such contracts for each period for which an income statement is presented?	—	—	—
[SFAS 68, par. 14 (AC R55.112)]			
B. Income Taxes			
1. Are the components of income tax expense disclosed, [tax expense estimated to be currently payable, tax effects of timing differences, and tax effects of operating losses] and allocated to:			
a. Income before extraordinary items?	—	—	—
b. Extraordinary items?	—	—	—
[APB 11, par. 60 (AC I28.106)]			
2. Are tax benefits realized from operating loss carryforwards reported as an extraordinary item in the period realized?	—	—	—
[APB 11, par. 61 (AC I17.116)]			
3. Do disclosures regarding income taxes include:			
a. Amounts of any unused operating loss carryforwards together with expiration dates (including separate identification of amounts that upon recognition would be credited to deferred taxes)?	—	—	—
b. Significant amounts of any other unused deductions and/or credits together with expiration dates?	—	—	—

Yes No N/A

c. Reasons for variations in customary relationship between income tax expense and pretax accounting income? — — —

[APB 11, par. 63 (AC I28.109); SFAS 31, par. 7 (AC I42.133); TB 82-1, par. 5 (AC I28.511)]

4. Do disclosures regarding the investment tax credit include:

a. The accounting method used and amounts involved? — — —

b. Amounts of any unused investment credits? — — —

[APB 4, par. 11 (AC I32.103); FASBI 25 (AC B50.153-.154, I32.107, I32.109, I32.114-.115 and I32.117-.120); TB 81-2, par. 4 (AC B50.650 and I32.502)]

5. If the entity is a subchapter S corporation, partnership or unincorporated proprietorship, do disclosures explain why income tax expense is not provided? — — —

C. Discontinued Operations

1. Are operations of a segment that has been discontinued or are the subject of a formal plan for disposition:

a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? — — —

[APB 30, pars. 8 & 13-18 (AC I13.101-.103, I13.105-.106 and I13.108-.109)]

b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? — — —

[APB 30, par. 8 (AC I13.105)]

2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? — — —

[APB 30, pars. 8 & 13-18 (AC I13.101-.103, I13.105-.106 and I13.108-.109)]

3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment rec-

	Yes	No	N/A
ognized in measuring the gain or loss on the sale?	—	—	—
[FASBI 37, par. 2 (AC F60.120)]			
4. For the period encompassing the measurement date, do notes to financial statements disclose:			
a. Identity of the segment discontinued?	—	—	—
b. Expected disposal date, if known?	—	—	—
c. Expected manner of disposal?	—	—	—
d. Description of the remaining assets and liabilities of the discontinued segment at the balance sheet date?	—	—	—
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance sheet date?	—	—	—
[APB 30, par. 18 (AC I13.108-.109)]			
5. For periods after the measurement date and including the disposal, do notes to financial statements disclose the information required for the period encompassing the measurement date and the actual date and results of disposal compared with the prior estimates?	—	—	—
[APB 30, par. 18 (AC I13.108-.109)]			
D. Extraordinary Items			
1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence?	—	—	—
[APB 30, pars. 19-24 (AC I17.106-.111 and I17.118)]			
2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?	—	—	—
[APB 30, pars. 10-12 (AC I17.102-.103)]			
3. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable?	—	—	—
[APB 30, par. 11 (AC I17.102)]			
4. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal			

	Yes	No	N/A
items entering into determination of extraordinary gain(s) or loss(es)?	—	—	—
[APB 30, par. 11 (AC I17.102)]			
5. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	—	—	—
b. Accompanied by disclosure of the nature and financial effects of each event?	—	—	—
[APB 30, par. 26 (AC I22.101); TB 82-1, par. 6 (AC I28.512)]			
6. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:			
a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?	—	—	—
b. Income tax effect in the period of extinguishment?	—	—	—
c. Per share amount of the aggregate gain or loss net of related income tax effect?	—	—	—
[SFAS 4, par. 9 (AC I17.104)]			
E. Other			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	—	—	—
b. Transfers to and from accounts properly designated as appropriated retained earnings?	—	—	—
c. Adjustments made pursuant to a quasi-reorganization?	—	—	—
[APB 9, par. 28 (AC C08.101)]			
2. Is earnings per share information, if required [SFAS 21 (AC E09.102)], presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation?	—	—	—

Yes No N/A

[APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c, A06.132, A35.105 and A35.113); APB 30, pars. 9 & 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128-.131 and E09.169-.176); SFAS 55, par. 7 (AC E09.123)]

.07 Statement of Changes in Financial Position

A. Format

1. Is a statement of changes in financial position presented as a basic financial statement for each period for which an income statement is presented? — — —

   [APB 19, par. 7 (AC F40.101)]

2. Does the format provide the most useful portrayal of the reporting entity's financing and investing activities and changes in financial position? — — —

   [APB 19, par. 11 (AC F40.105)]

B. Content

1. Does the statement of changes in financial position disclose all important aspects of financing and investing activities regardless of whether cash or other elements of working capital are directly affected? — — —

   [APB 19, par. 8 (AC F40.101-.102)]

2. Does the statement of changes in financial position:

   a. Begin with income or loss before extraordinary items? — — —

      [APB 19, par. 10 (AC F40.104)]

   b. Present additions or deductions of items recognized in determining income or loss that did not provide or use working capital or cash? — — —

      [APB 19, par. 10 (AC F40.104)]

   c. Present working capital or cash provided from or used in operations exclusive of any extraordinary items? — — —

      [APB 19, par. 10 (AC F40.104)]

   d. Present working capital or cash provided from or used by income or loss from extraordinary items? — — —

	Yes	No	N/A
[APB 19, par. 10 (AC F40.104) as amended by APB 30 (AC E09, I13, I17 and I22)]			
e. Individually disclose the effects of other financing and investing activities including:			
(1) Outlays for purchase of long-term assets?	—	—	—
(2) Proceeds from sale of long-term assets?	—	—	—
(3) Conversion of long-term debt or preferred stock to common stock?	—	—	—
(4) Issuance, assumption, redemption and repayment of long-term debt?	—	—	—
(5) Issuance, redemption or purchase of capital stock for cash or assets other than cash?	—	—	—
(6) Dividends in cash or in kind or other distributions to shareholders (except for stock dividends and stock split-ups as defined in ARB 43 Ch. 7B)?	—	—	—
[APB 19, pars. 13-14 (AC F40.107-.108)]			
f. Are net changes in each element of working capital disclosed?	—	—	—
[APB 19, par. 12 (AC F40.106)]			

The next page is 8601.

AAM Section 8500

Specialized Industries

.01 The following FASB Statements and Interpretations relate in whole or in part to specialized industries. To the extent they relate to specialized industries, they are not included in the Disclosure Checklist. Users of the checklist should refer directly to applicable authoritative pronouncements when reporting on a specialized industry.

.02 **FASB Statements Related to Specialized Accounting and Reporting Principles and Practices**

SFAS 12	"Accounting for Certain Marketable Securities"
SFAS 19	"Financial Accounting and Reporting by Oil and Gas Producing Companies"
SFAS 25	"Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies"
SFAS 35	"Accounting and Reporting by Defined Benefit Pension Plans"
SFAS 39	"Financial Reporting and Changing Prices: Specialized Assets—Mining and Oil and Gas"
SFAS 40	"Financial Reporting and Changing Prices: Specialized Assets—Timberlands and Growing Timber"
SFAS 41	"Financial Reporting and Changing Prices: Specialized Assets—Income Producing Real Estate"
SFAS 44	"Accounting for Intangible Assets of Motor Carriers"
SFAS 45	"Accounting for Franchise Fee Revenue"
SFAS 46	"Financial Reporting and Changing Prices: Motion Picture Films"
SFAS 50	"Financial Reporting in the Record and Music Industry"
SFAS 51	"Financial Reporting by Cable Television Companies"
SFAS 53	"Financial Reporting by Producers and Distributors of Motion Picture Films"
SFAS 54	"Financial Reporting and Changing Prices: Investment Companies"
SFAS 59	"Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units"
SFAS 60	"Accounting and Reporting by Insurance Enterprises"
SFAS 61	"Accounting for Title Plant"

SFAS 63	"Financial Reporting by Broadcasters"
SFAS 65	"Accounting for Certain Mortgage Banking Activities"
SFAS 66	"Accounting for Sales of Real Estate"
SFAS 67	"Accounting for Costs and Initial Rental Operations of Real Estate Projects"
SFAS 69	"Disclosures about Oil and Gas Producing Activities"
SFAS 71	"Accounting for the Effects of Certain Types of Regulation"
SFAS 72	"Accounting for Certain Acquisitions of Banking or Thrift Institutions"
SFAS 73	"Reporting a Change in Accounting for Railroad Track Structures"
SFAS 75	"Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units"

.03 FASB Interpretations Related to Industries Having Specialized Accounting and Reporting Principles and Practices

Interpretation 9	"Applying APB Opinion Nos. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method: An Interpretation of APB Opinion Nos. 16 and 17"
Interpretation 10	"Application of FASB Statement No. 12 to Personal Financial Statements: An Interpretation of FASB Statement No. 12"
Interpretation 15	"Translation of Unamortized Policy Acquisition Costs by a Stock Life Insurance Company: An Interpretation of FASB Statement No. 8"
Interpretation 33	"Applying FASB Statement No. 34 to Oil and Gas Producing Operations Accounted for by the Full Cost Method: An Interpretation of FASB Statement No. 34"
Interpretation 36	"Accounting for Exploratory Wells in Progress at the End of a Period: An Interpretation of FASB Statement No. 19"

AAM Section 9000

REVIEW AND REPORT PROCESSING

This manual is a nonauthoritative kit of practice aids and, accordingly, does not include extensive explanation or discussion of authoritative pronouncements. Users of this manual are urged to refer directly to applicable authoritative pronouncements when appropriate.

The exhibits are for illustrative purposes only. They are included as conveniences for users of this manual who may want points of reference when reviewing the working papers or preparing the report.

The material in this section has been extracted from the MAP Handbook and has been edited for this manual.

TABLE OF CONTENTS

Section		Paragraph
9100	Review Procedures	.01-.39
	Introduction	.01-.03
	Importance of the Review	.04-.07
	Review Organization	.08-.12
	Report Processing (Flow Chart)	.12
	Auditors' Reports—Review Control	.13-.24
	Report Guide Sheet	.23
	Report Production Control	.24
	Auditors' Reports—Review Procedures	.25-.26
	Responsibilities of the In-Charge Accountant	.27
	Responsibilities of the Account Administrator	.28-.35
	Responsibilities of the Review Department	.36
	Review Outline	.37-.38
	Illustrative Review Outline	.39
9500	Report Processing	.01-.17
	Drafting the Report	.01-.04
	Uniformity	.03
	Exposure Draft	.04
	Report Production	.05-.09
	Proofreading	.07-.08
	Routing Form for Financial Statements	.09
	Signing Reports	.10-.13
	Delivery of Completed Work	.14-.17

The next page is 9101.

AAM Section 9100

Review Procedures

Introduction

.01 The material presented in this chapter has been taken from the MAP Handbook.[1] It is presented as an aid to interested parties. The number and complexity of the forms used will vary from firm to firm, engagement to engagement. Their use should be based on the needs of the client, the needs of the firm and the complexity of the engagement.

.02 The various exhibits are presented for guidance only. They are not intended to be a definitive statement of what is required for each engagement, since every engagement might require a greater or lesser degree of documentation.

.03 Auditors should consider the requirements of SAS No. 22, Planning and Supervision, particularly paragraphs 9-12 (AU Section 311.09-.12) in deciding on the review procedures appropriate to their practice.

Importance of the Review

.04 The supervision and review of work are requirements far more vital and demanding than a mere obligation to perform an agreed assignment satisfactorily. These higher requirements stem directly from the fact that CPAs are engaged by clients to perform personal services of a professional character. The accountant must be sure that the service rendered is performed according to the explicit standards of the profession. Performance of various phases of an engagement may be delegated to subordinates, but responsibility for competence cannot be. When tasks are delegated, comprehensive internal supervision and review are essential.

.05 SAS No. 22 states: "The work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report."

.06 It is obvious that there is a need to review the work on the engagement, since responsibility for its performance rests upon the individual practitioner or the accounting firm issuing the report. The reviewer should check that the performance of duties delegated to subordinates has been accurate and thorough, that the engagement has been completed in accord with the terms governing it, and that

---

[1] *Management of an Accounting Practice Handbook* (AICPA, New York), 1978.

significant accounting and auditing questions raised during the examination have been properly dealt with.

.07 A review also serves to guard against errors of principle, judgment, and mathematics. Accountants are subject to the ever-present chance of error; guarding against it must always be uppermost in their minds. This gives added importance to the use of certain formal and standard review procedures.

Review Organization

.08 With respect to review responsibilities, practices are not uniform. Some firms have one partner review all reports issued from the office. In such cases, this partner rarely participates in the field work. Other firms hold each partner responsible for certain engagements and this responsibility, depending upon the size of the firm, can range from field supervision to reviewing and signing the reports.

.09 In many firms, responsibility for the adequacy of accounting work exists at different levels. Employee competence and integrity are reviewed after each engagement as well as periodically. This should reveal the qualifications of persons performing work for the firm and, along with the complexity of the subject matter, provide a basis for determining the extent of supervision and review appropriate in a given instance.

.10 Some firms can justify a separate review department. While others cannot afford this functional division of duties, neither can they afford to omit any of the review procedures, including some form of final reading of reports before they are typed.

.11 An example of the complete work and paper flow of a fully departmentalized firm, including both review and processing controls, could be diagrammed as shown in paragraph .12, on the following page.

.12

Report Processing (Flow Chart)

In-Charge
1. Report preparation
2. Initial review
3. Prepares guide sheet

Account Administrator *
1. Overall review
2. Approves work papers
3. Approves report

Review Department
1. Detailed review
2. Approves work papers
3. Approves report

Typing Department
1. Types report
2. Signs guide sheet

Draft and typed copy

Comparing and Proofing
1. Foots and proofs
2. Signs guide sheet

Draft and typed copy

Review Partner
1. Final reads
2. Signs report
3. Signs guide sheet

Typed report

Production Room
1. Multiliths
2. Collates and assembles

Report copies

Account Administrator*
1. Approves clearance of hold items
2. Signs transmittal } if available
3. Delivers report } if available
4. Signs guide sheet

Report copies

Control Record Check
1. Posts operations card

File copy

Central Files
1. Places in file

File copy

Tax Department
1. Tax accrual review
2. Approves work papers
3: Approves accrual of taxes

Work papers

Central Files
1. Places in file

Work papers

*The "account administrator" is usually a partner although in some circumstances may be an experienced manager being considered for partnership who is acting under the overall supervision of a partner.

Auditors' Reports—Review Control

.13 There are several important techniques used to control audit engagements through all stages of review and production. Most of these come into use from the very start of the assignment.

.14 The first review control procedure is the adoption of a standard working paper index system. There are many such systems in use, usually based on some variation of numerical designations. Standard working paper index systems are discussed in the sections on working papers.

.15 The second review control procedure is the report guide sheet, on which basic information is noted at the start of the engagement. While varying from firm to firm, the information usually includes the following:

1. Client's name.
2. Audit date.
3. Engagement partner and account administrator.
4. Date audit commenced.
5. Date audit completed.
6. Date report submitted for review.
7. Date review completed.
8. Date submitted for typing.
9. Date submitted for checking.
10. Date sent to client.
11. Special comments, such as "rush," "date promised client," and "hold for confirmation."

.16 A report guide sheet usually accompanies all reports submitted for processing. The following procedures are used in its preparation.

Engagement information. The in-charge accountant enters the engagement information, delivery instructions, and "hold items" (items to be cleared prior to releasing report). He signs the report guide sheet as initial reviewer.

Review. The report is approved at various levels of review. If there is more than one reviewer (for example, two department reviewers for phases of a large job), the primary reviewer should sign the report guide sheet. If the account administrator was assisted in his review by another person, the account administrator should sign the report guide sheet as overall reviewer. If another partner or manager performed the entire review in the absence of the account administrator, then such other reviewer should sign the report guide sheet as overall reviewer.

Processing. The various processing levels are signed off. If more than one typist is involved, the head of the typing department or the primary typist may sign the report guide sheet. If more than one person is involved in comparing and proofing, the person primarily responsible should sign the report guide sheet. The review partner or his delegate should sign as final reader.

Final release. The person who signs for final release must ascertain that all other required signatures are on the report guide sheet before releasing the report.

Report production. The reverse side of the report guide sheet is usually completed by the in-charge accountant. A photocopy may be given to the report production department as advance notice of production requirements (for example, where numerous printed covers will be needed).

.17 The report guide sheet is bound with the operating office's file copy of the report. With the busy atmosphere prevailing at most firms, it is of vital importance that all work as it moves through the production process be under tight control independent of the work product and its guide sheet.

.18 A simple schedule can be maintained to control the flow of work from the date an audit engagement is begun to the date the report is finally mailed to the client. The schedule has key items arranged in columnar form and can be maintained by the office manager or another person in charge of staff assignments. Frequent references to the schedule should reveal any unusual delays in completing an engagement or typing a report.

.19 To account for each report from the time it is placed for typing to the time it is mailed or delivered to the client, some firms maintain a record in the typing department, in place of or as a supplement to the foregoing record. (See Report Production Control.)

.20 If this record indicates any time lags, the matter should be investigated; it may indicate either an abnormal backlog of work or some other problem.

.21 In preparing the report production control form, the following procedures are suggested:

- It should be manually prepared and updated daily by a control clerk.
- It should be retained in a notebook in a readily accessible location so that audit personnel can check report status without interfering with review and production operations.

- When a report and related work papers are received by the reviewer, the client name, report description, fiscal year end, report-letter date, and due date should be entered.
- The review partner should assign a reviewer and record the date forwarded to the reviewer and the forwarding date for tax review.
- The person's name to whom the report is given for rework (if required) should be entered and the dates forwarded for tax and audit reviews of rework are recorded (if required).
- Other dates should be recorded through final release.

.22 Periodic distribution of photocopies of the current report production control forms to the department heads will enable them to spot processing delays and to raise appropriate administrative questions.

.23

Report Guide Sheet

(To be bound with the —— colored copy of report)

Engagement Information

Client ______________________________ Date due ______

Assignment number ______________ Assignment name ______________________

Account administrator ______________ Manager ______________ In-charge accountant ______

☐ Compiled Financial Statements Period ______________

☐ Reviewed Financial Statements Period ______________

☐ Audited Statements Period ______________

☐ Review of Interim Financial Information Period ______________

☐ Other Unaudited Financial Statements Period ______________

☐ Special Reports —
Description: Date ______________

Delivery Instructions:

Name —attention of: ______________________ ☐ Mail

Address: ______________________ ☐ Delivery by:

______________________________ ______________

Hold Items (describe):

	Cleared by	Date

Report Review:

	Signature	Date
In-charge		
Account Administrator		
Review Department		
Tax Department		
Review Partner		

Reporting Processing:

	Signature	Date
Typing department		
Comparing and proofing		
Final reading		

Final Release:

The report(s) described above were released by me after all hold items were cleared. All appropriate levels of review were signed off, and all processing steps completed.

______________________________ ______________

(Signature) (Date)

Report Guide Sheet (Continued)

Report Description (Exactly as it will appear):

- ☐ Financial Statements and Accountant's (Compilation) (Review) Report
- ☐ Financial Statements and Auditor's Report
- ☐ Unaudited (Interim) Financial (Statements) (Information) (and Accountant's Review Report)
- ☐ Other Title ____________________

____

Client ____________________ Date __________

Report Production:

Covers: ☐ Printed ☐ Typed Report: ☐ Multilith ☐ Other ______

Report Copies:

In covers	Client	Issuing office[a]	Regional office[b]	Executive office[c]	____	____	Totals
Standard form							
Long form							
SEC							

Uncovered[d]	Work paper copies (at least two)	Extra file copies	____	____
Standard form				
Long form				
SEC stapled				
			Grand total	

a. One copy of each report should be bound in a ___ colored cover with a completed report guide sheet.
b. The regional office should be sent only the following:
   1. All filings and reports for publicly held clients.
   2. All audit reports expressing a qualified opinion, a denial of opinion, or an adverse opinion.
   3. Special purpose reports.
   4. All unaudited reports where a reservation is expressed.
   5. Budgets and forecasts.
   6. Pro forma financial statements.
c. The executive office should be sent only filings and reports on publicly held clients.
d. Except as required for regulatory purposes, uncovered stapled copies should not be released to clients or third parties.

Other Production Instructions:

____

.24

Report Production Control

Client	Report description	Dates			Reviewer name	Dates forwarded for										
						Review		Rework		Rework review						
		FYE	Report letter	Due		Audit	Tax	Date	To *(name)*	Audit	Tax	Type & proof	Final read	Multilith	Hold	Final release

Auditors' Reports—Review Procedures

.25 Although many firms combine some steps, the review process may have several steps:

1. On larger assignments, the initial review, sometimes called the field review, may be handled by the in-charge accountant. On smaller assignments it may be combined with the second review and handled by the account administrator (who may be a partner or a manager being considered for partnership).
2. The overall review (which may be partly in the field) may be handled by the account administrator or partner.
3. The detailed office review may be done by the review department. Where there is no such department, it usually is handled by another partner not directly connected with the engagement.
4. The income tax review may be made by the tax department. Where there is no separate department, it is usually handled by a partner who is knowledgeable in tax matters.
5. The final review of the report may be made by the engagement partner or another audit partner particularly (a) when the engagement partner's field of specialization is not auditing or (b) when the client is a public company.
6. A post-review is frequently made after reports are issued. Sometimes this is done by the managing partner of the office. In a multi-office firm the executive office may appoint specific partners to conduct post-reviews.

.26 Each person responsible for any phase of review should know the exact nature and extent of his responsibilities. Many firms prepare manuals detailing the steps to be taken by each reviewer, including a review questionnaire. While the details of the review procedures are technical matters covered in-depth in technical publications, some examples are included on the following pages to guide firms in formalizing their procedures.

Responsibilities of the In-Charge Accountant

.27 Before the in-charge accountant is satisfied that the initial or field review is complete, he or she should—

- Determine that all phases of the work have been concluded in accord with the engagement plan.
- Determine that the engagement has been conducted in accord with generally accepted auditing standards, and that the report has been prepared in conformity with the standards of reporting.
- Review, initial, and date all working papers prepared by others.

- Resolve all questions raised in the working papers.
- Determine that the working papers contain only information related to the specific engagement and that all nonevidential matter has been disposed of.
- Review journal entries to check that they have been properly prepared and approved by the client.
- Obtain the account administrator's approval of the journal entries (preferably before leaving the field) before submitting them to the client.
- Prepare and sign the report guide sheet.
- Obtain the account administrator's approval that the field work is, in fact, complete.
- Evaluate the performance of those assisting in the engagement.

Responsibilities of the Account Administrator

.28 The second phase of the review is usually an overall review by the account administrator. Because this person makes visits to the field, this review tends to overlap with the field review by the in-charge accountant. Nevertheless, there are certain things for which the account administrator is responsible.

.29 The account administrator conducts an overall review of each engagement as part of the ultimate responsibility for each of the firm's clients assigned to him or her. Knowledge of the client's transactions provides an informed basis for appraising the adequacy of procedures and the adherence to proper accounting principles. The overall review also alerts the account administrator to pertinent matters relating to his consulting activities.

.30 The account administrator's review is a continuing matter not restricted to the period immediately following the fieldwork phase of the engagement. He should periodically visit the client's offices during the course of the engagement to review progress and to determine that all questions have been satisfactorily answered.

.31 Only in rare instances would an account administrator delegate his overall review function to another and, in such cases, only to a partner or to a manager familiar with the account. However, in all instances the account administrator should remain responsible for the overall review and should ascertain that the review has been properly performed before the report and working papers are forwarded to the review department.

.32 Where feasible, the overall review should take place in the field during the final stages of the audit. This permits the account administrator to resolve more easily any questions which arise and permits him to extend audit procedures if necessary.

.33 In his overall review, the account administrator, in addition to his technical review, should be responsible for the following:

- Analyzing the financial statements and notes to make certain that representations and amounts in the report are appropriate from a business standpoint.
- Initialing key working papers. For example, he may initial those working papers where his knowledge of the client's affairs is particularly applicable.
- Resolving all questions raised in the review performed by the in-charge accountant.
- Determining the adequacy of explanations for substantial variances between current and prior-year report balances.
- Signing the report guide sheet.
- Evaluating the performance of the in-charge accountant and assistants.

.34 The degree of detail in which the account administrator's review is performed depends on various factors pertinent to the circumstances of the engagement and is influenced by the degree of reliance he can place on the staff executing the assignment as well as by the extent of preliminary review. However, the account administrator should *not* perform such review procedures as tracing figures and mechanical accuracy; these procedures should be performed by the review department.

.35 The account administrator should be responsible for reviewing the report with the client after it has been approved by the office reviewer.

Responsibilities of the Review Department

.36 The responsibilities of the review department, if there is one, vary between firms. The prime responsibility, however, is to insure compliance with policies of the firm and with applicable accounting, auditing, and SEC pronouncements.

Review Outline

.37 Outlines, either formal or informal, may be used by reviewers as guides for conducting a review. They provide only general boundaries for the review and require professional experience and technical competence on the part of the reviewer. The use of a review outline does not diminish the need for technical literature to be available on each engagement.

.38 Review outlines such as the illustration which follows should be used by persons having expert knowledge of generally accepted accounting principles and auditing standards and preferably by someone who has had experience in reviewing reports and working papers. Reviewers must use professional judgment in applying such aids in actual circumstances; accordingly it may be appropriate to modify specific steps or prepare supplementary materials.

.39

Illustrative Review Outline

Overall Objectives

The reviewer determines that the working papers and financial statements, standing alone, demonstrate and document compliance with:

1. Generally accepted auditing standards.
2. Generally accepted accounting principles.
3. Policies and procedures of the firm as set forth in its manuals.

Mechanical Accuracy

The following steps are performed to assure the mechanical and arithmetical accuracy of the report and related working papers.

1. For supporting schedules which arrive at account balances, trace balances to lead schedules.
2. Trace lead schedules to working trial balances.
3. Trace all figures in report to working papers.
4. Intercheck all figures appearing in more than one place in the report.
5. Test important calculations in the working papers, such as:
   a. Accruals for interest income and expense.
   b. Accruals and provisions for state and federal income taxes.
   c. Accruals for pension and profit sharing plans.
   d. Accrued bonuses.
   e. Depreciation.
   f. Inventory price testing.
   g. Installment sale income.
   h. Calculations with respect to leases.
6. The following calculations should be recomputed.
   a. Earnings per share.

Illustrative Review Outline (continued)

b. Compliance with loan agreement restrictions.

c. Figures included in notes.

Audit Scope and Execution

The reviewer should satisfy himself as to the following:

1. Proper treatment of areas which may lead to or are susceptible to material misstatement of the financial report. Adequacy of administrator's review of such areas and consideration of the peculiarities of the client and its industry during his review.
2. Adequacy of review, documentation, and tests of compliance of the system of internal accounting control. Scope of the audit procedures performed was based on the auditor's evaluation of internal accounting control.
3. The audit program used was appropriate for the particular circumstances.
4. Scope, basis of selection, and results of such procedures as:
   a. Voucher tests
   b. Payroll test
   c. Sales test
   d. Cut-off tests
5. Scope, basis of selection, and results of accounts receivable confirmation and supplementary procedures. Adequacy of allowance for doubtful accounts.
6. Adequacy of tests of inventory, including validity of conclusions as to price testing, physical inventory observations, and factors relating to possible obsolescence. Reliability of confirmations of inventory held for and by third parties. Conformity of cost accounting procedures to generally accepted accounting principles. Proper use and documentation of "lower of cost or market value."
7. Valuation of investments.
8. Valuation and amortization of intangibles.
9. Scope, basis of selection, and results of liability tests.
10. Adequacy of accrued liabilities.
11. Adequacy of auditing procedures on long-term debt including confirmations and review of indenture restrictions.
12. Adequacy of examination of capital accounts.
13. Adequacy of provision for income taxes.
14. Proper period for reporting of income and expense.

15. Adequacy of explanations of material variations in income and expense accounts from prior year.
16. Completeness of representation letters.
17. Propriety of reporting of transactions with related parties.
18. Adequacy of support for and accuracy of all material year-end adjusting journal entries.

Report Review

The reviewer should satisfy himself that:

1. The report complies with the AICPA Statements on Auditing Standards or Statements on Standards for Accounting and Review Services, as applicable.
2. Accounting principles conform to Opinions of the Accounting Principles Board and Statements of the Financial Accounting Standards Board.

Concluding the Review

In concluding his review, the reviewer does the following:

1. Clears all questions with the account administrator. Controversial points that cannot be resolved are referred to the appropriate person for a decision.
2. Communicates any suggested changes in the report or the financial statements to the account administrator. The reviewer should not make the changes himself.
3. Communicates suggestions (in addition to those developed by the in-charge accountant) for the following year to the account administrator. Such suggestions would typically include cycle testing, statistical sampling, assistance of client's personnel to prepare schedules, use of computer audit specialists and computer audit programs, and possible reduction of test scope.
4. If necessary, communicates comments about adequacy of initial review by the in-charge accountant and overall review by the account administrator to managing partner.
5. Ascertains that all "hold" items have been properly noted. (It is the responsibility of the partner signing for final release on the report guide sheet to ascertain that all hold items have been cleared.)
6. Signs the appropriate form as reviewer.
7. Records review time on the time analysis form.

The next page is 9501.

AAM Section 9500

Report Processing

Drafting the Report

.01 The only tangible evidence a client receives of the CPA's work is the written report. Since weeks or months of effort may have been spent in its preparation (for which the client pays a substantial fee), it is only prudent that every effort be made to insure the superior quality of its presentation.

.02 While most financial statements do not offer the opportunity for creativity in writing style, the effectiveness of many special reports is influenced by the quality of the writing. Clarity and dignity in an accountant's report are not achieved through use of long words, technical language or complicated reasoning, but through simple language used to present important thoughts, supported by documentation. Proper grammar and sentence structure improve readability. Effective use of forceful words with smooth transitions between sentences will help hold the reader's interest. If the subject matter is of deep concern to management and if management has respect for the auditor's opinion, it is likely that the recommendations will be followed by action, especially if the author communicates effectively. This is particularly true where the report is to be the basis for a management decision.

Uniformity

.03 Strict uniformity may stifle creative thinking, but a consistent format adds quality to the written report.

1. The client's name should appear at the top of every statement with identical spelling and punctuation. The certificate of incorporation should be inspected to determine the exact name of the corporation. Accuracy in seemingly small matters, such as whether "the" is part of the name, the word "Company" or "Incorporated" is abbreviated or spelled out, or commas are part of the name, is important to the accountant's reputation.
2. Descriptive phraseology should be uniform. If the phrase "cost of goods sold" is used in the income statement, then a schedule of these costs should show "cost of goods sold," not "cost of sales."
3. The manner in which the date or period covered is indicated should also be uniform. If the income statement is headed "for the year ended December 31, 19—," then all supporting schedules should be headed that way, rather than "for the year 19—."

4. Schedule and statement headings should conform to a pattern. For example, if "schedule of cost of goods sold" is used, then all other schedules should begin with "schedule of."
5. Statement and schedule headings should be the same in the letter, table of contents, index, and other references.

Exposure Draft

.04 In some cases an exposure draft of the report, clearly identified as a draft, can be used effectively to afford the client an opportunity to comment on the report before it is in final form.

Report Production

.05 A report should be typed as indicated in the firm's manuals, but additional care should be exercised in planning the overall format. Each page should be well balanced, paragraphs should break in the right places, tables should be centered and not broken except when a table is longer than a page, page numbers should be in the same place on each sheet, type should be clean and alignment even, and there should be no "strikeovers" or visible erasures.

.06 Typists must know that they are expected to do each job perfectly. The report represents the firm, and there can be no compromise with excellence. If a finished page is not up to standard, it should be retyped before it goes through proofreading, computing, and checking. The following should be standardized:

Title page	Captions
Indexing	Spacing
Salutation	Indentation
Page numbering	Paragraphing
Closing and signing	Capitalization
Dating	Underscoring
Whole dollar reporting	Punctuation
Headings	Dollar signs

Double or single spacing

Proofreading

.07 Before the pencil copy of the report or financial statement is typed, it should be reviewed and initialed. Proofreading should be done by someone other than the typist. In larger offices this may be a full-time job for one or more employees. In other firms, staff assistants or college students (on a part-time basis) may do the proofreading.

.08 One proofreading procedure involves the use of a Routing Form (or Processing Control Form). In this example an editor reviews the report or financial statement to insure (1) that all other quality control checks (footing, proofing, etc.) have been completed, (2) that all firm policies and formats have been followed, (3) that all AICPA, FASB, and SEC pronouncements have been observed, and (4) that no obvious errors or omissions have been made.

.09 Routing Form for Financial Statements

For the fiscal year ended ____________

Date wanted ____________

Last possible date ____________

Client name ____________ Client no. ____________

Address ____________

Prepared by ____________

Tax returns to accompany financial statements? Yes ☐ No ☐

Date completed ____________

Date tax returns due ____________

Draft reviewed ____________

Statements to be:

Date turned in for typing ____________

☐ Delivered ____________

Number of copies ____________

☐ Picked up by client ____________

Statements to be duplicated by:

☐ Mailed ____________

Multilith ____________

Telephone ____________

Card ____________

Photocopy ____________

Special Instructions: ____________

Typing, Proofing and Duplicating Route (initial and date each line)

	Assigned to	Completed
Typing	____	____
Proofing	____	____
Retyping	____	____
Rechecking	____	____
Supervisor's review	____	____
Review partner's review and OK for duplicating	____	____
Duplicate financial statements	____	____

Does supervisor want to review duplicated financial statements before assembling? Yes ☐ No ☐

Assemble financial statements	____	____
Account administrator's final review, sign and OK	____	____

Delivered by ____________ Date ____________

Picked up by ____________ Date ____________

Mailed by ____________ Date ____________

Routing Form for Financial Statements (Continued)

Proofing Record

Proofed by: ______________________________ Date: ____________

Page or schedule no.	Line no.	Corrections to be made — As typed	Corrections to be made — Correct to	Correction made by	Correction OK'd by

Signing Reports

.10 After the report has been reviewed, typed, proofread, and corrected, it is usually submitted to a partner for final reading and signature.

.11 Some firms do not bind the report until after it is signed. This saves unbinding in case the signing partner orders any revisions. In offices where the reports have been sufficiently and systematically reviewed and referenced before or after typing, they may be submitted to the partner for his signature in final bound form. This saves time and additional handling.

.12 The transmittal letters and addressed envelopes should be submitted to the partner with the reports. This gives him an opportunity to review the mailing directions, so that reports are directed to the proper person.

.13 Report letters are usually signed by a partner using the firm name. Where reproducing equipment is used, a signature on the original is sufficient. There is no complimentary closing. It is important to establish rules applying to report signatures since all reports (and correspondence) issued to clients carry with them the reputation, authority, and responsibility of the firm.

Delivery of Completed Work

.14 Audit reports are rightfully considered by clients to be confidential documents. For this reason, care should be taken to address them to a responsible person, usually the treasurer or principal executive, in an envelope clearly marked "confidential." Where there is some question as to the person or persons to whom the report should be delivered, address it to the specific source of authority authorizing the report. In a majority of cases, especially for recurring engagements, the reports are mailed. However, some firms make it a practice to have a partner deliver the report personally and discuss it with the client.

.15 The report should be mailed in envelopes or boxes sturdy enough to withstand the rough treatment they may receive in transit.

.16 Many firms send separate transmittal letters with their reports. The letter should contain no comments on the report because it might be construed as a modification of the opinion on the report. It is advisable to write a letter requesting that a printer's proof be submitted to the accounting firm for review before any printed reports are released by the client to stockholders or the public.

.17 Reports are generally issued only to the client who engaged the services. The unauthorized distribution of a report represents a violation of the confidential relationship between a firm and its client. Firms are sometimes asked by clients to mail copies of their reports directly to third parties. Clients should be discouraged from making such requests. In rare instances, where a firm assumes this added responsibility, distributions are made only upon specific written instruction from the client, and reference to the client's instructions should be included in the transmittal to the third party. Printed annual reports to shareholders, prospectuses, and other reports that are a matter of public record, such as those filed with certain governmental agencies, are obvious exceptions to this rule.

AAM Section 10,000

ACCOUNTANTS' REPORTS

These examples are for illustrative purposes only. They are included as conveniences for users of this manual who may want points of departure when drafting reports to meet their individual needs. This manual is a nonauthoritative kit of practice aids and accordingly, does not include extensive explanation or discussion of authoritative pronouncements. Users of this manual are urged to refer directly to applicable authoritative pronouncements when appropriate.

These examples illustrate the body of various reports. For comment on the heading, addressing and dating of the report, see section 10,100.

Examples which are assembled from illustrative reporting language set forth in Statements on Auditing Standards (SAS) and Statements on Standards for Accounting and Review Services (SSARS) include citation of the particular source and its location in *AICPA Professional Standards.*

TABLE OF CONTENTS

Section		*Paragraph*
10,100	Format of Accountants' Reports	.01-.11
	Heading (Title) of the Report	.01
	Addressing the Report	.02-.06
	Dating the Report	.07-.11
10,210	Unqualified Opinions	.010-.140
	Auditor's Standard Report—Comparative Financial Statements	.010
	Auditor's Standard Report—Single Year Financial Statements	.020
	Report on a Single Statement (Balance Sheet)	.030
	Reference to Other Auditors—Successor Auditor's Report when Predecessor's Report (Unqualified) Is Not Presented	.040

Section		Paragraph
10,210	**Unqualified Opinions—Continued**	
	Reference to Other Auditors in Report	.050
	Reference to Other Auditors—Successor Auditor's Unqualified Report when Predecessor's (Qualified) Report Is Not Presented	.060
	Reference to Other Auditors—Prior Year Financial Statements Restated Following a Pooling of Interests	.070
	Comparative Financial Statements—Unqualified Opinion on the Current Year's Financial Statements with Disclaimer of Opinion on the Prior Year's Statements of Income, Retained Earnings, and Changes in Financial Position	.080
	Comparative Financial Statements—Resolution in the Current Period of an Uncertainty Existing in a Prior Period Requiring No Adjustment of the Financial Statements	.090
	Comparative Financial Statements—Resolution in the Current Period of an Uncertainty Existing in a Prior Period Requiring Recognition in the Current Financial Statements	.100
	Comparative Financial Statements—Subsequent Restatement of Prior-Period Financial Statements to Conform with Generally Accepted Accounting Principles	.110
	Comparative Financial Statements—Current Year's Statements Audited and Prior Year's Statements Reviewed	.120
	Comparative Financial Statements—Current Year's Statements Audited and Prior Year's Statements Compiled	.130
	Comparative Financial Statements—Current Year's Statements Audited and Disclaimer on Prior Year's Unaudited Statements	.140
10,220	**Adverse Opinions**	.01
10,230	**Disclaimers of Opinion**	.01-.04
	Beginning Inventory Not Observed (First Examination)	.01
	Inadequate Records Preclude Opinion (First Examination)	.02
	Inadequate Records Preclude Restatement of Prior Years and Preclude Opinion on Consistency (First Examination)	.03
	Limitation of Scope—Evidential Matter	.04

Section		Paragraph
10,240	Qualified Opinions	.010-.160
	Scope Limitation—Inventories Not Observed (Assuming Effects Are Such that Qualification Rather than Disclaimer Is Appropriate)	.010
	Uncertainty—Litigation	.020
	Uncertainty—Litigation, Prior Year Unqualified	.030
	Uncertainty—New Uncertainty Affecting Both the Current- and Prior-Period Financial Statements	.040
	Uncertainty—Entity's Continued Existence ("Going Concern")	.041
	Departure from GAAP—Leases Not Capitalized	.050
	Departure from GAAP—Leases Not Capitalized—Pertinent Facts Disclosed in Note	.060
	Inadequate Disclosure—Omission of Disclosure of Restriction in Debt Agreement	.070
	Inadequate Disclosure—Omission of Statement of Changes in Financial Position	.080
	Inconsistency—Change in Accounting Principle Requiring Restatement of Prior Years (Single Year Financial Statements)	.090
	Inconsistency—Change in Accounting Principle Requiring Restatement of Prior Years (Comparative Financial Statements)	.100
	Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Single Year Financial Statements)	.110
	Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Comparative Financial Statements)	.120
	Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Comparative Financial Statements when Change Is as of the Beginning of the Earliest Year Reported Upon)	.130
	Inconsistency—Change in Accounting Principle Without Reasonable Justification	.140
	Inconsistency—Change to an Accounting Principle Not in Conformity with Generally Accepted Accounting Principles	.150
	More than One Reason—Qualified Opinion on Prior Year's Financial Statements with the Current Year Qualified for the Same Reason and an Additional Reason	.160
10,245	Information Accompanying Audited Financial Statements	.010-.100
	Omission of Supplementary Information Required by the FASB	.010
	Material Departures from FASB Guidelines on Supplementary Information	.020

Section		Paragraph
10,245	Information Accompanying Audited Financial Statements—Continued	
	Prescribed Procedures Not Completed Regarding Supplementary Information Required by the FASB	.030
	Report on Accompanying Information	.040
	Disclaimer on Accompanying Information (Not Audited)	.050
	Disclaimer on Part of the Accompanying Information (Not Audited)	.060
	Qualification on Basic Financial Statements and Accompanying Information (Departure from GAAP)	.070
	Supplementary Information Required by the FASB Included in Auditor-Submitted Document	.080
	Consolidating Information Not Separately Examined	.090
	Unqualified Opinion on Selected Financial Data in a Client-Prepared Document That Includes Audited Financial Statements	.100
10,250	Engagements to Report on Internal Accounting Control	.010-.070
	Unqualified Opinion on an Entity's System of Internal Accounting Control	.010
	Reporting Material Weaknesses	.020
	Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole	.030
	Reporting Material Weaknesses—Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole	.040
	Reporting Material Weaknesses in Summary Form—Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole	.041
	Report Based on Criteria Established by a Regulatory Agency	.050
	Pre-Award Survey—Report Based on Criteria Established by a Regulatory Agency	.060
	Survey Made in Conjunction with an Audit—Report Based on Criteria Established by a Regulatory Agency	.070
	Report on the Design of the System of Internal Accounting Controls Maintained by a Service Organization	.080
	Report on the Design of, and Compliance with, Certain Internal Accounting Control Procedures Maintained by a Service Organization	.081
	Report on a System of Internal Accounting Control of a Segment of a Service Organization	.082

Section		Paragraph
10,260	**Special Reports**	.010-.151
	Cash Basis Statements	.010
	Income Tax Basis Statements	.020
	Regulatory (Statutory) Basis Statements	.030
	Pension Plan Statements with Scope Restrictions Elected by Plan Administrator	.040
	Rental Computation Report Based on Gross Sales	.050
	Royalties	.060
	Profit Participation	.070
	Report Relating to the Adequacy of a Provision for Income Taxes in Financial Statements	.080
	Proposed Acquisition	.090
	Claims of Creditors	.100
	Compliance with Contractual Provisions (Separate Report)	.110
	Compliance with Contractual Provisions (Auditor's Report Accompanying Financial Statements)	.120
	Compliance with Regulatory Requirements	.130
	Special Purpose Financial Statements Prepared Pursuant to a Loan Agreement—Effects of Departures from Generally Accepted Accounting Principles Disclosed in a Note to the Statements	.140
	Special Purpose Financial Statements Prepared Pursuant to a Loan Agreement—Effects of Departures from Generally Accepted Accounting Principles Disclosed by Referring to Coexisting Audited Financial Statements	.141
	Special Purpose Financial Statements Prepared Pursuant to an Acquisition Agreement—Effects of Departures from Generally Accepted Accounting Principles Have Not Been Determined	.142
	Special Purpose Financial Presentation—Schedule of Gross Income and Certain Expenses	.150
	Special Purpose Financial Presentation—Statement of Assets Sold and Liabilities Transferred	.151
10,270	**Unaudited Financial Statements of a Public Entity**	.01-.04
	Disclaimer	.01
	Current Period Financial Statements Unaudited—Prior Period Financial Statements Audited	.02
	Disclaimer—Cash Basis Statements	.03
	Disclaimer—Regulatory (Statutory) Basis Statements	.04
10,280	**Lack of Independence**	
	Disclaimer	.01

Section		Paragraph
10,300	Review of Interim Financial Information	.01-.06
	Accountant's Report	.01
	Accountant's Report—Comparative	.02
	Reference to Other Accountants	.03
	Departure from GAAP	.04
	Inadequate Disclosure	.05
	Restricted Scope of Review Stated in an Auditor's Report	.06
10,400	Accountant's Report on Compilation of Financial Statements of a Nonpublic Entity	.01-.23
	Accountant's Standard Report	.01
	Omission of Substantially All Disclosures	.02
	Omission of Statement of Changes in Financial Position and Substantially All Disclosures	.03
	Accountant Not Independent	.04
	Departure from GAAP—Omission of Statement of Changes in Financial Position	.05
	Departure from GAAP—Accounting Principles Not Generally Accepted	.06
	Cash Basis Statements—Full Disclosure	.07
	Cash Basis Statements—Omission of Substantially All Disclosures	.08
	Income Tax Basis Statements—Full Disclosure	.09
	Income Tax Basis Statements—Omission of Substantially All Disclosures, With No Reference to Basis	.10
	Compilation Each Period—Comparative Financial Statements	.11
	Compilation Report on Current Period and Reference to Review Report on Prior Period—Comparative Financial Statements	.12
	Changed Reference to a Departure from Generally Accepted Accounting Principles—Comparative Financial Statements	.13
	Predecessor's Compilation Report on Prior Period Not Presented—Comparative Financial Statements	.14
	Predecessor's Review Report on Prior Period Not Presented—Comparative Financial Statements	.15
	Prior Period Audited—Comparative Financial Statements	.16
	Omission of Substantially All Disclosures Including Those for Prior Period Previously Not Omitted—Comparative Financial Statements	.17

Section		Paragraph
10,400	Accountant's Report on Compilation of Financial Statements of a Nonpublic Entity—Continued	
	Prior Period Disclaimed Pursuant to SAS No. 1, Section 516—Comparative Financial Statements . . .	.18
	Predecessor's Disclaimer Pursuant to SAS No. 1, Section 516 Not Presented—Comparative Financial Statements . . .	.19
	Financial Statements Accompanied by Supplementary Information . . .	.20
	Financial Statements Included in Certain Prescribed Forms . . .	.21
	Financial Statements Included in Certain Prescribed Forms—Departure from GAAP Not Called for by the Prescribed Forms . . .	.22
	Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern") . . .	.23
10,500	Accountant's Report on Review of Financial Statements of a Nonpublic Entity . . .	.01-.17
	Accountant's Standard Report . . .	.01
	Departure from GAAP—Accounting Principles Not Generally Accepted . . .	.02
	Departure from GAAP—Change in Accounting Principle Without Reasonable Justification . . .	.03
	Departure from GAAP—Omission of Statement of Changes in Financial Position . . .	.04
	Cash Basis Statements—Full Disclosure . . .	.05
	Income Tax Basis Statements—Full Disclosure . . .	.06
	Review Each Period—Comparative Financial Statements . . .	.07
	Review Report on Current Period and Reference to Compilation Report on Prior Period—Comparative Financial Statements . . .	.08
	Changed Reference to a Departure from Generally Accepted Accounting Principles—Comparative Financial Statements . . .	.09
	Predecessor's Review Report on Prior Period Not Presented—Comparative Financial Statements . . .	.10
	Predecessor's Compilation Report on Prior Period Not Presented—Comparative Financial Statements . . .	.11
	Prior Period Audited—Comparative Financial Statements . . .	.12
	Prior Period Disclaimed Pursuant to SAS No. 1, Section 516—Comparative Financial Statements . . .	.13

Section		Paragraph
10,500	Accountant's Report on Review of Financial Statements of a Nonpublic Entity—Continued	
	Predecessor's Disclaimer on Prior Period Pursuant to SAS No. 1, Section 516 Not Presented—Comparative Financial Statements	.14
	Financial Statements Accompanied by Supplementary Information Subjected to Inquiry and Analytical Procedures	.15
	Financial Statements Accompanied by Supplementary Information Not Subjected to Inquiry and Analytical Procedures	.16
	Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern")	.17
10,550	Accountant's Report on Condensed Financial Statements and Selected Financial Data	.01-.03
	Unqualified Opinion on Condensed Financial Statements	.01
	Adverse Opinion on Condensed Financial Statements Due to Inadequate Disclosure	.02
	Review Report on Condensed Financial Statements	.03
10,600	Reports on Personal Financial Statements	.01-.17
	Auditor's Standard Report	.01
	Audit Report—Statement of Financial Condition Only	.02
	Audit Report—Departure from GAAP—Inappropriate Valuation Methods—Adverse Opinion	.03
	Audit Report—Departure from GAAP—Inappropriate Valuation Methods—Qualified Opinion	.04
	Audit Report—Inadequate Records Preclude Opinion	.05
	Audit Report—Scope Limitation—Inadequate Records	.06
	Audit Report—Income Tax Basis	.07
	Accountant's Standard Compilation Report	.08
	Compilation Report—Statement of Financial Condition Only	.09
	Compilation Report—Omission of Substantially All Disclosures	.10
	Compilation Report — GAAP Departure — Material Assets at Cost	.11
	Compilation Report—Income Tax Basis	.12
	Compilation Report—Financial Statements Included in a Prescribed Form	.13

Section		Paragraph
10,600	Reports on Personal Financial Statements —Continued	
	Accountant's Standard Review Report	.14
	Review Report—Statement of Financial Condition Only	.15
	Review Report—GAAP Departure—Failure to Include a Provision for Estimated Income Taxes on the Differences Between the Estimated Current Value of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases	.16
	Review Report—Income Tax Basis	.17

The next page is 10,101.

AAM Section 10,100

Format of Accountants' Reports

Heading (Title) of the Report

.01 The following table, extracted from the 1983 edition of *Accounting Trends & Techniques,*[1] shows the descriptive titles used in 600 stockholders' reports to identify the auditor's report:

TABLE 6-1: TITLE OF AUDITORS' REPORT

	1982	1981	1980	1979
Independent accountants' report	134	129	121	119
Auditors' report	116	122	127	123
Accountants' report	90	88	94	104
Independent certified public accountants' report	67	66	58	42
Independent auditors' report	70	65	69	70
Certified public accountants' report	55	57	54	53
Auditors' opinion	32	32	31	29
Accountants' opinion	5	7	4	5
Independent accountants' opinion	4	3	4	5
Independent certified public accountants' opinion	3	4	5	6
Other titles	5	5	3	6
No title	19	22	30	38
Total Companies	600	600	600	600

Addressing the Report

.02 The accountant or auditor addresses his report to the client which retained his service.

.03 When the client is a corporation, the report may be addressed to the corporation, its board of directors or its stockholders. In practice, reports on financial statements of publicly traded corporations are usually addressed to the board of directors and shareholders.[1]

.04 When the client is not incorporated, the circumstances will dictate how the report should be addressed. For example, the report may be addressed to the partners, to the general partner, or to the proprietor.

[1] Source: *Accounting Trends & Techniques* (AICPA, New York, 1983), page 393.

.05 Occasionally, an auditor is retained to examine the financial statements of an entity that is not his client. In such instances, the report is addressed to the client and not to the board of directors, stockholders or proprietor of the entity whose financial statements are being examined.

.06 For authoritative guidance on addressing the report, see SAS No. 2, paragraph 8 (*AICPA Professional Standards,* AU section 509.08).

Dating the Report

.07 The date on an auditor's report generally indicates when the auditor completed the field work on which the report is based. Likewise, the date of an accountant's compilation report on the financial statements of a nonpublic entity, would be the date of completion of the compilation work. The date of a review report on such financial statements would be the date of completion of the accountant's inquiry and analytical procedures. Report dating involves additional considerations when the auditor becomes aware of events that occurred after completion of field work but before issuance of the report, when the report is on comparative financial statements, or when a report on prior year financial statements is reissued.

.08 When an event which is disclosed in the financial statements occurs after completion of field work but before issuance of the report, the auditor may use "dual dating," for example, "February 15, 19X1, except for Note 10 as to which the date is March 1, 19X1." In this instance, the auditor's responsibility for events occurring after February 15, 19X1 is limited to the specific event referred to in Note 10. The auditor may also date the report as of March 1, 19X1; this, however, would extend the auditor's responsibility for subsequent events to March 1, 19X1.

.09 For an auditor's report which covers financial statements of one or more prior periods (which he audited) presented on a comparative basis with those of the current period, the auditor would ordinarily date the report on the financial statements of all periods presented as of the date of his report on the most recent financial statements.

.10 When an auditor, as a predecessor, reissues a report on prior year financial statements for presentation with the report of a successor auditor on current-year financial statements, the predecessor would use the date of his previous report on his reissued report to avoid the implication that he has performed any additional field work. If the predecessor auditor revises his report or if the financial statements are restated, he would dual date his report.

.11 For authoritative guidance on dating reports, see SAS No. 1, section 530; SAS No. 15, paragraphs 2 and 11; SAS No. 36, paragraph 17; and SSARS No. 1, paragraphs 15 and 33 (*AICPA Professional Standards,* AU sections 530, 505.02, 505.11, 722.17, and AR section 100.15 and 100.33).

The next page is 10,211.

AAM Section 10,210

Unqualified Opinions

.010 Auditor's Standard Report—Comparative Financial Statements

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraph 3 (*AICPA Professional Standards,* AU section 505.03).]

.020 Auditor's Standard Report—Single Year Financial Statements

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 2, paragraph 7 (*AICPA Professional Standards,* AU section 509.07).]

.030 Report on a Single Statement (Balance Sheet)

We have examined the balance sheets of ZYX Company as of [at] December 31, 19X2 and 19X1. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the balance sheets referred to above present fairly the financial position of ZYX Company as of [at] December 31, 19X2 and 19X1 in conformity with generally accepted accounting principles applied on a consistent basis.

NOTE:

The auditor should consider the need for disclosure in his report of a loss or similar operating problems if not already adequately disclosed in the balance sheets or accompanying footnotes.

.040 Reference to Other Auditors—Successor Auditor's Report when Predecessor's Report (Unqualified) Is Not Presented

We have examined the balance sheet of ABC Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of ABC Company for the year ended December 31, 19X1, were examined by other auditors whose report dated March 1, 19X2, expressed an unqualified opinion on those statements.

In our opinion, the 19X2 financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 15, paragraph 12 (*AICPA Professional Standards,* AU section 505.12).]

.050 Reference to Other Auditors in Report

We have examined the consolidated balance sheet of X Company and subsidiaries as of December 31, 19XX, and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of B Company, a consolidated subsidiary, which statements reflect total assets and revenues constituting 20 percent and 22 percent, respectively, of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for B Company, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and changes in financial position present fairly the financial position of X Company and subsidiaries as of [at] December 31, 19XX, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 543.09 (*AICPA Professional Standards,* AU section 543.09).]

.060 Reference to Other Auditors—Successor Auditor's Unqualified Report when Predecessor's (Qualified) Report Is Not Presented

We have examined the balance sheet of ABC Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of ABC Company for the year ended December 31, 19X1, were examined by other auditors whose opinion, dated March 1, 19X2, on those statements was qualified as being subject to the effects on the 19X1 financial statements of such adjustments, if any, as might have been required had the outcome of the litigation discussed in Note X to the financial statements been known.

In our opinion, the 19X2 financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 15, paragraph 12 (*AICPA Professional Standards,* AU section 505.12).]

.070 Reference to Other Auditors—Prior Year Financial Statements Restated Following a Pooling of Interests

We have examined the consolidated balance sheet of XYZ Company and subsidiaries as of [at] December 31, 19X2, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of XYZ Company and subsidiaries as of [at] December 31, 19X2, and the consolidated results of their operations and the changes in their consolidated financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We previously examined and reported upon the consolidated statements of income and changes in financial position of XYZ Company and subsidiaries for the year ended December 31, 19X1, prior to their restatement for the 19X2 pooling of interests. The contribution of XYZ Company and subsidiaries to revenues and net income represented .... percent and .... percent of the respective restated totals. Separate financial statements of the other companies included in the 19X1 restated consolidated statements of income and changes in financial position were examined and reported upon separately by other auditors. We also have applied procedures to the combination of the accompanying consolidated statements of income and changes in financial position for the year ended December 31, 19X1, after restatement for the 19X2 pooling of interests; in our opinion, such consolidated statements have been properly combined on the basis described in Note A of notes to consolidated financial statements.

[Source: SAS No. 1, section 543.16 as modified, October 1980, by the Auditing Standards Board (*AICPA Professional Standards,* AU section 543.16).]

NOTE:

The auditor uses this form of reporting when he concludes he cannot serve as principal auditor for the restated financial statements. See SAS No. 1, section 543.16—.17 as modified, October 1980, by the Auditing Standards Board (AU section 543.16—.17), for guidance.

.080 Comparative Financial Statements—Unqualified Opinion on the Current Year's Financial Statements with Disclaimer of Opinion on the Prior Year's Statements of Income, Retained Earnings, and Changes in Financial Position

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Except as explained in the following paragraph, our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not observe the taking of the physical inventory as of December 31, 19X0, since that date was prior to our appointment as auditors for the Company, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures.

In our opinion, the balance sheets of ABC Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the year ended December 31, 19X2, present fairly the financial position of ABC Company as of December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the year ended December 31, 19X2, in conformity with generally accepted accounting principles applied on a consistent basis.

Because of the matter discussed in the second paragraph, the scope of our work regarding inventories as of December 31, 19X0, was not sufficient to enable us to express, and we do not express, an opinion on the statements of income, retained earnings, and changes in financial position for the year ended December 31, 19X1.

[Source: SAS No. 15, paragraph 5 (*AICPA Professional Standards,* AU section 505.05).]

.090 Comparative Financial Statements—Resolution in the Current Period of an Uncertainty Existing in a Prior Period Requiring No Adjustment of the Financial Statements

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 1, 19X2, our opinion on the 19X1 financial statements was qualified as being subject to the effects on the 19X1 financial statements of such adjustments, if any, as might have been required had the outcome of certain litigation been known. As explained in Note X, the litigation was settled as of November 1, 19X2, at no material cost to the Company. Accordingly, our present opinion on the 19X1 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraph 7 (*AICPA Professional Standards,* AU section 505.07).]

.100 Comparative Financial Statements—Resolution in the Current Period of an Uncertainty Existing in a Prior Period Requiring Recognition in the Current Financial Statements

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 1, 19X2, our opinion on the 19X1 financial statements was qualified as being subject to the realization of the investment in DEF Company. As explained in Note X, the carrying amount of that investment has been charged to operations in the current year as required by generally accepted accounting principles. Accordingly, our present opinion on the 19X1 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraph 7 (*AICPA Professional Standards,* AU section 505.07).]

.110 Comparative Financial Statements—Subsequent Restatement of Prior Period Financial Statements to Conform with Generally Accepted Accounting Principles

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated March 1, 19X2, we expressed an opinion that the 19X1 financial statements did not fairly present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles because of two departures from such principles: (1) the Company carried its property, plant, and equipment at appraisal values, and provided for depreciation on the basis of such values, and (2) the Company did not provide for deferred income taxes with respect to differences between income for financial reporting purposes and taxable income. As described in Note X, the Company has restated its 19X1 financial statements to conform with generally accepted accounting principles. Accordingly, our present opinion on the 19X1 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the changes referred to in the preceding paragraph.

[Sources: SAS No. 15, paragraph 7 (*AICPA Professional Standards,* AU section 505.07); SAS No. 1, section 546.01—.02 (*AICPA Professional Standards,* AU section 546.01—.02).]

.120 Comparative Financial Statements — Current Year's Statements Audited and Prior Year's Statements Reviewed

We have examined the balance sheet of X Company as of [at] December 31, 19X2, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 19X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 19X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

[Sources: SAS No. 26, paragraph 17 (*AICPA Professional Standards,* AU section 504.17) and SAS No. 2, paragraph 7 (*AICPA Professional Standards,* AU section 509.07).]

NOTE:

When unaudited financial statements are presented in comparative form with audited financial statements, the unaudited financial statements should be clearly marked to indicate their status.

.130 Comparative Financial Statements — Current Year's Statements Audited and Prior Year's Statements Compiled

We have examined the balance sheet of X Company as of [at] December 31, 19X2, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 19X1 financial statements were compiled by us (other accountants) and our (their) report thereon, dated March 1, 19X2, stated we (they) did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

[Sources: SAS No. 26, paragraph 17 (*AICPA Professional Standards,* AU section 504.17) and SAS No. 2, paragraph 7 (*AICPA Professional Standards,* AU section 509.07).]

NOTE:

When unaudited financial statements are presented in comparative form with audited financial statements, the unaudited financial statements should be clearly marked to indicate their status.

.140 Comparative Financial Statements — Current Year's Statements Audited and Disclaimer on Prior Year's Unaudited Statements

We have examined the balance sheet of X Company as of [at] December 31, 19X2, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 19X1 financial statements were not audited by us and, accordingly, we do not express an opinion on them.

NOTES:

The above report illustrates a disclaimer of opinion as described in SAS No. 26, paragraph 17 (*AICPA Professional Standards,* AU section 504.17) when the financial statements are those of a public entity. For a nonpublic entity, see AAM section 10,210.120 and 10,210.130.

When unaudited financial statements are presented in comparative form with audited financial statements, the unaudited financial statements should be clearly marked to indicate their status.

→ *The next page is 10,271.* ←

AAM Section 10,220

Adverse Opinions

.01 We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note X to the financial statements, the Company carries its property, plant and equipment accounts at appraisal values, and provides depreciation on the basis of such values. Further, the Company does not provide for income taxes with respect to differences between financial income and taxable income arising because of the use, for income tax purposes, of the installment method of reporting gross profit from certain types of sales. Generally accepted accounting principles, in our opinion, require that property, plant and equipment be stated at an amount not in excess of cost, reduced by depreciation based on such amount, and that deferred income taxes be provided. Because of the departures from generally accepted accounting principles identified above, as of December 31, 19XX, inventories have been increased $...... by inclusion in manufacturing overhead of depreciation in excess of that based on cost; property, plant and equipment, less accumulated depreciation, is carried at $...... in excess of an amount based on the cost to the Company; and allocated income tax of $...... has not been recorded; resulting in an increase of $...... in retained earnings and in appraisal surplus of $....... For the year ended December 31, 19XX, cost of goods sold has been increased $...... because of the effects of the depreciation accounting referred to above and deferred income taxes of $...... have not been provided, resulting in an increase in net income and earnings per share of $...... and $...... respectively.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of X Company as of December 31, 19XX, or the results of its operations and changes in its financial position for the year then ended.

[Source: SAS No. 2, paragraph 43 (*AICPA Professional Standards*, AU section 509.43).]

The next page is 10,321.

AAM Section 10,230

Disclaimers of Opinion

.01 Beginning Inventory Not Observed (First Examination)

We have examined the balance sheet of X Company as of September 30, 19X2, and the related statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.

Because we were not engaged as auditors until after September 30, 19X1, we were not present to observe the physical inventory taken at that date and we have not satisfied ourselves by means of other procedures concerning inventory quantities. The amount of the inventory at September 30, 19X1, enters materially into the determination of the results of operations and changes in financial position for the year ended September 30, 19X2. Therefore, we do not express an opinion on the accompanying statements of income and retained earnings and changes in financial position for the year ended September 30, 19X2.

In our opinion, the accompanying balance sheet presents fairly the financial position of X Company at September 30, 19X2, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 542.05 (*AICPA Professional Standards,* AU section 542.05).]

.02 Inadequate Records Preclude Opinion (First Examination)

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Except as indicated in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of major inadequacies in the Company's accounting records for the previous year, it was not practicable to extend our auditing procedures to enable us to express an opinion on results of operations and changes in financial position for the year ended December 31, 19XX or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying balance sheet presents fairly the financial position of X Company as at December 31, 19XX in conformity with generally accepted accounting principles.

[Source: SAS No. 1, section 546.15 (*AICPA Professional Standards,* AU section 546.15).]

.03 Inadequate Records Preclude Restatement of Prior Years and Preclude Opinion on Consistency (First Examination)

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has kept its records and has prepared its financial statements for previous years on the cash basis with no recognition having been accorded accounts receivable, accounts payable, or accrued expenses. At the beginning of the current year the Company adopted the accrual basis of accounting. Although appropriate adjustments have been made to retained earnings as of the beginning of the year, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to restate results of operations and changes in financial position in conformity with the accounting principles used in the current year.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

[Source: SAS No. 1, section 546.16 (*AICPA Professional Standards,* AU section 546.16).]

.04 Limitation of Scope—Evidential Matter

We have examined the balance sheet of X Company as of [at] December 31, 19X2, and the related statements of income, retained earnings and changes in financial position for the year then ended. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company did not take a physical inventory of merchandise, stated at $...... in the accompanying financial statements as of December 31, 19X2, and at $...... as of December 31, 19X1. Further, evidence supporting the cost of property and equipment acquired prior to December 31, 19X1 is no longer available. The Company's records do not permit the application of adequate alternative procedures regarding the inventories or the cost of property and equipment.

Since the Company did not take physical inventories and we were unable to apply adequate alternative procedures regarding inventories and the cost of property and equipment, as noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

[Source: SAS No. 2, paragraph 47 (*AICPA Professional Standards,* AU section 509.47).]

The next page is 10,371.

AAM Section 10,240

Qualified Opinions

.010 Scope Limitation—Inventories Not Observed (Assuming Effects Are Such that Qualification Rather than Disclaimer Is Appropriate)

We have examined the balance sheet of X Company as of [at] December 31, 19X2, and the related statements of income, retained earnings and changes in financial position for the year then ended.

Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not observe the taking of the physical inventories as of December 31, 19X2 (stated at $......), and December 31, 19X1 (stated at $......), since those dates were prior to the time we were initially engaged as auditors for the Company. Due to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities by means of other auditing procedures.[1]

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19X2, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 2, paragraph 40 (*AICPA Professional Standards,* AU section 509.40).]

[1] If the auditor has also been unable to carry out other tests, such as those relating to the pricing and clerical accuracy of the inventories, the language in the middle and opinion paragraphs should be modified accordingly.

.020 Uncertainty—Litigation

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note X to the financial statements, the Company is defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the lawsuits cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 2, paragraph 39 as amended by SAS 43, paragraph 6 (*AICPA Professional Standards*, AU section 509.39).]

.030 Uncertainty—Litigation, Prior Year Unqualified

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note X, during 19X2 the Company became a defendant in a lawsuit relating to the sale in 19X2 of a wholly owned subsidiary. The ultimate outcome of the lawsuit cannot be determined, and no provision for any liability that may result has been made in the 19X2 financial statements.

In our opinion, subject to the effects on the 19X2 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraph 5 (*AICPA Professional Standards,* AU section 505.05).]

The next page is 10,373-3.

.040 Uncertainty—New Uncertainty Affecting Both the Current and Prior Period Financial Statements

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note X, a number of legal actions were filed against the Company subsequent to the date of our report on the 19X1 financial statements. These actions claim substantial damages as a result of alleged violations of antitrust laws during prior years. The Company is in the process of litigating these actions, but the ultimate outcome is uncertain at this time. In our report dated March 1, 19X2, our opinion on the 19X1 financial statements was unqualified; however, in view of the litigation referred to above, our present opinion on the 19X1 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the 19X2 and 19X1 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraphs 5 and 7 (*AICPA Professional Standards,* AU section 505.05 and 505.07).]

.041 Uncertainty—Entity's Continued Existence ("Going Concern")

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As shown in the financial statements, the company incurred a net loss of $...... during the year ended December 31, 19XX, and, as of that date, the company's current liabilities exceeded its current assets by $............ and its total liabilities exceeded its total assets by $............. These factors, among others as discussed in Note X, indicate that the company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the company be unable to continue in existence.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty about the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of X Company as of December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 34, paragraph 12 (*AICPA Professional Standards,* AU section 340.12).]

.050 Departure from GAAP—Leases Not Capitalized

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations, which, in our opinion, should be capitalized in order to conform with generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by $......, long-term debt by $......, and retained earnings by $...... as of December 31, 19XX, and net income and earnings per share would be increased (decreased) by $...... and $...... respectively for the year then ended.

In our opinion, except for the effects of not capitalizing lease obligations, as discussed in the preceding paragraph, the financial statements present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 2, paragraph 36 (*AICPA Professional Standards,* AU section 509.36).]

.060 Departure from GAAP—Leases Not Capitalized —Pertinent Facts Disclosed in Note

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note Z to the financial statements, the Company has excluded certain lease obligations from property and debt in the accompanying balance sheet. In our opinion, generally accepted accounting principles require that such obligations be included in the balance sheet.

In our opinion, except for the effects of not capitalizing lease obligations, as discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 2, paragraph 37 (*AICPA Professional Standards,* AU section 509.37).]

.070 Inadequate Disclosure—Omission of Disclosure of Restriction in Debt Agreement

We have examined the balance sheet of X Company as of [at] December 31, 19X1 and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

On January 15, 19X2, the company issued debentures in the amount of $...... for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19X1.

In our opinion, except for the omission of the information in the preceding paragraph, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19X1, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 545.02 (*AICPA Professional Standards*, AU section 545.02).]

.080 Inadequate Disclosure—Omission of Statement of Changes in Financial Position

We have examined the balance sheet of X Company as of December 31, 19XX and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company declined to present a statement of changes in financial position for the year ended December 31, 19XX. Presentation of such statement summarizing the company's financing and investing activities and other changes in its financial position is required by Opinion No. 19 of the Accounting Principles Board.

In our opinion, except that the omission of a statement of changes in financial position results in an incomplete presentation as explained in the preceding paragraph, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19XX, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 545.05 (*AICPA Professional Standards*, AU section 545.05).]

.090 Inconsistency—Change in Accounting Principle Requiring Restatement of Prior Years (Single Year Financial Statements)

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.

[Source: SAS No. 1, section 546.02 (*AICPA Professional Standards*, AU section 546.02).]

.100 Inconsistency—Change in Accounting Principle Requiring Restatement of Prior Years (Comparative Financial Statements)

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.

[Source: SAS No. 1, section 546.02 (*AICPA Professional Standards*, AU section 546.02).]

.110 Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Single Year Financial Statements)

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of computing depreciation as described in Note X to the financial statements, have been applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 546.03 (*AICPA Professional Standards,* AU section 546.03).]

.120 Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Comparative Financial Statements)

We have examined the balance sheet of X Company as at December 31, 19X2 and 19X1, and the related statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as at December 31, 19X2 and 19X1 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods except for the change, with which we concur, in the method of computing depreciation as described in Note X to the financial statements.

[Source: SAS No. 1, section 546.03 (*AICPA Professional Standards,* AU section 546.03).]

.130 Inconsistency—Change in Accounting Principle Not Requiring Restatement of Prior Years (Comparative Financial Statements when Change Is as of the Beginning of the Earliest Year Reported Upon)

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods subsequent to the change, with which we concur, made as of January 1, 19...., in the method of computing depreciation as described in Note X to the financial statements.

[Source: SAS No. 1, section 546.03 (*AICPA Professional Standards,* AU section 546.03).]

.140 Inconsistency—Change in Accounting Principle Without Reasonable Justification

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As disclosed in Note X to the financial statements, the Company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although use of the (description of newly adopted method) is in conformity with generally accepted accounting principles, in our opinion the Company has not provided reasonable justification for making a change as required by Opinion No. 20 of the Accounting Principles Board.

In our opinion, except for the change in accounting principles as stated above, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 546.06 (*AICPA Professional Standards,* AU section 546.06).]

.150 Inconsistency—Change to an Accounting Principle Not in Conformity with Generally Accepted Accounting Principles

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The company previously recorded its land at cost but adjusted the amounts to appraised values during the year, with a corresponding increase in stockholders' equity in the amount of $....... In our opinion, the new basis on which land is recorded is not in conformity with generally accepted accounting principles.

In our opinion, except for the change to recording appraised values as described above, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19XX, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

[Source: SAS No. 1, section 546.05 (*AICPA Professional Standards,* AU section 546.05).]

.160 More than One Reason—Qualified Opinion on Prior Year's Financial Statements with the Current Year Qualified for the Same Reason and an Additional Reason

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has excluded from property and debt in the accompanying 19X2 balance sheet certain lease obligations that were entered into in 19X2, which, in our opinion, should be capitalized in order to conform with generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by $......, long-term debt by $......, and retained earnings by $...... as of December 31, 19X2, and net income and earnings per share would be increased (decreased) by $...... and $......, respectively, for the year then ended.

As discussed in Note X, the Company is involved in continuing litigation relating to patent infringement. The ultimate outcome of this litigation cannot be determined, and no provision for any liability that may result has been made in the 19X2 or 19X1 financial statements.

In our opinion, except for the effects on the 19X2 financial statements of not capitalizing certain lease obligations, as described in the second paragraph, and subject to the effects on the 19X2 and 19X1 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of ABC Company as of December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: SAS No. 15, paragraph 5 (*AICPA Professional Standards*, AU section 505.05).]

The next page is 10,421.

AAM Section 10,245

Information Accompanying Audited Financial Statements

.010 Omission of Supplementary Information Required by the FASB

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ABC Company has not presented (describe the supplementary information required by the FASB in the circumstances) that the Financial Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

[Source: SAS No. 27, paragraph 8 (*AICPA Professional Standards,* AU section 553.08).]

.020 Material Departures from FASB Guidelines on Supplementary Information

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The (specifically identify the supplementary information) on page xx is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the (specifically identify the supplementary information) is not in conformity with guidelines established by the Financial Accounting Standards Board because (describe the material departure(s) from the FASB guidelines).

[Source: SAS No. 27, paragraph 8 (*AICPA Professional Standards*, AU section 553.08).]

NOTE:

Ordinarily. the supplementary information required by the FASB should be distinct from the audited financial statements and separately identifiable from other information outside the financial statements that is not required by the FASB. However, management may choose not to place the required supplementary information outside of the basic financial statements. In such circumstances, the information should be clearly marked as unaudited.

.030 Prescribed Procedures Not Completed Regarding Supplementary Information Required by the FASB

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we con-considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The (specifically identify the supplementary information) on page xx is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because (state the reasons).

[Source: SAS No. 27, paragraph 8 (*AICPA Professional Standards,* AU section 553.08).]

NOTES:

Even though he is unable to complete the prescribed procedures, if, on the basis of facts known to him, the auditor concludes that the supplementary information has not been measured or presented within FASB guidelines, he suggests appropriate revision; failing that, he describes the nature of any material departure(s) in his report.

Ordinarily, the supplementary information required by the FASB should be distinct from the audited financial statements and separately identifiable from other information outside the financial statements that is not required by the FASB. However, management may choose not to place the required supplementary information outside of the basic financial statements. In such circumstances, the information should be clearly marked as unaudited.

.040 Report on Accompanying Information

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The (identify accompanying information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Source: SAS No. 29, paragraph 12 (*AICPA Professional Standards,* AU section 551.12).]

NOTES:

The report on the accompanying information may be added to the auditor's standard report on the basic financial statements or may appear separately in the auditor-submitted document.

This form of reporting on accompanying information is not appropriate with respect to supplementary information required by the FASB; see SAS No. 29, par. 15 (AU section 551.15).

.050 Disclaimer on Accompanying Information (Not Audited)

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The (identify the accompanying information) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on it.

[Source: SAS No. 29, paragraph 13 (*AICPA Professional Standards*, AU section 551.13).]

NOTES:

The report on the accompanying information may be added to the auditor's standard report on the basic financial statements or may appear separately in the auditor-submitted document.

When the auditor disclaims an opinion on all or part of the accompanying information in a document that he submits to his client or to others, such information should either be marked as unaudited or should include a reference to the auditor's disclaimer of opinion. The wording of the disclaimer will vary according to the circumstances.

.060 Disclaimer on Part of the Accompanying Information (Not Audited)

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages XX-YY is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the examination of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Source: SAS No. 29, paragraph 13 (*AICPA Professional Standards,* AU section 551.13).]

NOTES:

The report on the accompanying information may be added to the auditor's standard report on the basic financial statements or may appear separately in the auditor-submitted document.

When the auditor disclaims an opinion on all or part of the accompanying information in a document that he submits to his client or to others, such information should either be marked as unaudited or should include a reference to the auditor's disclaimer of opinion. The wording of the disclaimer will vary according to the circumstances.

.070 Qualification on Basic Financial Statements and Accompanying Information (Departure from GAAP)

We have examined the balance sheet of X Company as of [at] December 31, 19XX, and the related statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations, which, in our opinion, should be capitalized in order to conform with generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by $......, long-term debt by $......, and retained earnings by $...... as of December 31, 19XX, and net income and earnings per share would be increased (decreased) by $...... and $...... respectively for the year then ended.

In our opinion, except for the effects of not capitalizing lease obligations, as discussed in the preceding paragraph, the financial statements present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of property and related depreciation (page X), and long term debt with related interest (page Y), as of December 31, 19XX, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such schedules has been subjected to the auditing procedures applied in the examination of the basic financial statements; and, in our opinion, except for the effects on the schedule of property of not capitalizing certain lease obligations as explained in the second preceding paragraph, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Source: SAS No. 29, paragraph 14 and SAS No. 2, paragraph 36 (*AICPA Professional Standards,* AU sections 551.14 and 509.36).]

NOTE:

The report on the accompanying information may be added to the auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

.080 Supplementary Information Required by the FASB Included in Auditor-Submitted Document

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Company as of [at] December 31, 19X2 and 19X1, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The (identify the supplementary information) on page XX is not a required part of the basic financial statements but is supplementary information required by the Financial Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

[Source: SAS No. 29, paragraph 15 (*AICPA Professional Standards,* AU section 551.15.]

NOTES:

The report on the accompanying information may be added to the auditor's standard report on the basic financial statements or may appear separately in the auditor-submitted documents.

When supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, the auditor should disclaim an opinion on the information unless he has been engaged to examine and express an opinion on it.

In accordance with SAS No. 27, paragraph 8 (AU section 553.08), the auditor's report should be expanded in certain circumstances. The illustrative reports at AAM sections 10,245.010, 10,245.020, and 10,245.030 are assembled from illustrative reporting language in SAS No. 27, paragraph 8 (AU section 553.08).

.090 Consolidating Information Not Separately Examined

We have examined the consolidated balance sheets of ABC Company and subsidiaries as of [at] December 31, 19X2 and 19X1, and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of ABC Company and subsidiaries as of [at] December 31, 19X2 and 19X1, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in financial position of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the examination of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

[Source: SAS No. 29, paragraph 18 (*AICPA Professional Standards,* AU section 551.18).]

NOTES:

The report on the consolidating information may be added to the auditor's standard report on the basic financial statements or may appear separately in the auditor-submitted document.

When the auditor is engaged to express an opinion only on the consolidated financial statements and consolidating information is also included, the auditor should be satisfied that the consolidating information is suitably identified. For example, when the consolidated financial statements include columns of information about the components of the consolidated group, the balance sheets might be titled, "Consolidated Balance Sheet—December 31, 19X1, with Consolidating Information," and the columns including the consolidating information might be marked, "Consolidating Information." When the consolidating information is presented in separate schedules, the schedules presenting balance sheet information of the components might be titled, for example, "Consolidating Schedule, Balance Sheet Information, December 31, 19X1."

.100 Unqualified Opinion on Selected Financial Data in a Client-Prepared Document That Includes Audited Financial Statements

We have examined the consolidated balance sheets of ABC Company and subsidiaries as of December 31, 19X5 and 19X4, and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended December 31, 19X5. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of the ABC Company and subsidiaries as of December 31, 19X5 and 19X4, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 19X5, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also previously examined, in accordance with generally accepted auditing standards, the consolidated balance sheets as of December 31, 19X3, 19X2, and 19X1, and the related consolidated statements of income, retained earnings, and changes in financial position for the years ended December 31, 19X2 and 19X1 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in the selected financial data for each of the five years in the period ended December 31, 19X5, appearing on page xx, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

[Source: SAS No. 42, paragraph 10 (*AICPA Professional Standards,* AU section 552.10).]

The next page is 10,471.

AAM Section 10,250

Engagements to Report on Internal Accounting Control

.010 Unqualified Opinion on an Entity's System of Internal Accounting Control

We have made a study and evaluation of the system of internal accounting control of XYZ Company and subsidiaries in effect at (date). Our study and evaluation was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

The management of XYZ Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal accounting control of XYZ Company and subsidiaries in effect at (date), taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the consolidated financial statements.

[Source: SAS No. 30, paragraph 39 (*AICPA Professional Standards,* AU section 642.39).]

.020 Reporting Material Weaknesses

We have made a study and evaluation of the system of internal accounting control of XYZ Company and subsidiaries in effect at (date). Our study and evaluation was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

The management of XYZ Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation disclosed the following conditions in the system of internal accounting control of XYZ Company and subsidiaries in effect at (date), which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the consolidated financial statements may occur and not be detected within a timely period.

Comment

The report should describe the material weaknesses, state whether they result from the absence of control procedures or the degree of compliance with them, and describe the general nature of potential errors or irregularities that may occur as a result of the weaknesses.

The accountant may want to report to management other weaknesses even though they are not considered to be material. Comments on such other weaknesses should be clearly distinguished from those relating to material weaknesses. If some weaknesses are reported to one group but not to another (for example, to management but not to regulatory agencies), the more extensive report should distinguish the weaknesses that are excluded from the other report, and the accountant should be prepared to support, if necessary, his judgment in making the distinction.

If management has implemented control procedures to correct the weakness, the accountant should not refer to this corrective action unless he has satisfied himself that the procedures are suitably designed and are being applied as prescribed.

If the opinion on the internal accounting control system is issued in conjunction with an examination of the entity's financial statements, the following sentence should be included in the paragraph that describes the material weakness:

> These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our examination of the 19XX financial statements, and this report does not affect our report on these financial statements dated (date of report).

[Source: SAS No. 30, paragraphs 39, 40 and 43 (*AICPA Professional Standards*, AU section 642.39—.40 and 642.43).]

.030 Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole [1]

To the Board of Directors of XYZ Company:

We have examined the financial statements of XYZ Company for the year ended December 31, 19X1, and have issued our report thereon dated February 23, 19X2 [2]. As part of our examination, we made a study and evaluation of the Company's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of XYZ Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of XYZ Company taken as a

---

[1] When the study and evaluation made as part of an audit is sufficient for expressing an opinion on the system, see SAS No. 30, paragraphs 37—46 (AU section 642.37—.46).

[2] If the report on an examination of the financial statements is qualified because of a restriction on the scope of the examination, the restriction and its effect on the evaluation of the system of internal accounting control should be indicated in the report. If a portion of the examination has been performed by other auditors, the principal auditor's report should make it clear that it does not cover the entities examined by the other auditors. If the other auditors have issued a report concerning material weaknesses, the principal auditor may wish to, but is not required to, refer to such report of the other auditors.

whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

This report is intended solely for the use of management (or specified regulatory agency or other specified third party) and should not be used for any other purpose.

[Source: SAS No. 30, paragraph 49 (*AICPA Professional Standards,* AU section 642.49).]

.040 Reporting Material Weaknesses—Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole [3]

To the Board of Directors of XYZ Company:

We have examined the financial statements of XYZ Company for the year ended December 31, 19X1, and have issued our report thereon dated February 23, 19X2.[4] As part of our examination, we made a study and evaluation of the Company's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited that would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of XYZ Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of XYZ Company taken as

[3] When the study and evaluation made as part of an audit is sufficient for expressing an opinion on the system, see SAS No. 30, paragraphs 37—46 (AU section 642.37—.46).

[4] If the report on an examination of the financial statements is qualified because of a restriction on the scope of the examination, the restriction and its effect on the evaluation of the system of internal accounting control should be indicated in the report. If a portion of the examination has been performed by other auditors, the principal auditor's report should make it clear that it does not cover the entities examined by the other auditors. If the other auditors have issued a report concerning material weaknesses, the principal auditor may wish to, but is not required to, refer to such report of the other auditors.

a whole. However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of XYZ Company may occur and not be detected within a timely period.[5] (A description of the material weaknesses that have come to the auditor's attention would follow.)

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 19X1 financial statements, and this report does not affect our report on these financial statements dated (date of report).

This report is intended solely for the use of management (or specified regulatory agency or other specified third party) and should not be used for any other purpose.

Comment

The description of the weaknesses should include indication of whether they result from the absence of control procedures or the degree of compliance with them, and describe the general nature of potential errors or irregularities that may occur as a result of the weaknesses. (However, if the auditor becomes aware of material weaknesses for which management believes corrective action is not practicable, he may refer to the circumstances and summarize the weaknesses; a detailed communication of the circumstances and the related weaknesses is not required. See AAM § 10,250.041 for an illustration of reporting material weaknesses in summary form.)

The auditor may want to report other weaknesses even though they are not considered to be material. Comments on such weaknesses should be clearly distinguished from those relating to material weaknesses. If some weaknesses are reported to one group but not to another (for example, to management but not to regulatory agencies), the more extensive report should distinguish the weaknesses that are excluded from the other report, and the auditor should be prepared to support, if necessary, his judgment in making the distinction.

[Source: SAS No. 30, paragraph 49—51 (*AICPA Professional Standards,* AU section 642.49—.51).]

[5] If the auditor is aware of a material weakness in internal accounting control, whether or not he is specifically engaged by the client to review and report on the system of internal accounting control, a communication as described in SAS No. 20 (AU section 323), "Required Communication of Material Weaknesses in Internal Accounting Control", is required. For the form of such communication see paragraph 8 of SAS No. 20 (AU section 323.08), as amended by SAS No. 30 (AU section 642).

.041 Reporting Material Weaknesses in Summary Form—Study and Evaluation Made as Part of an Audit and Not Sufficient for Expressing Opinion on the System Taken as a Whole [6]

To the Board of Directors of XYZ Company:

As part of our examination of your financial statements for the year ended December 31, 19X1, as described in our engagement letter dated October 1, 19X1, we studied the Company's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards to enable us to express an opinion on your financial statements.[7]

Such a study and evaluation does not necessarily cover all aspects of internal accounting control and might not detect all weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of XYZ Company taken as a whole. However, as indicated in the following paragraph, it disclosed certain conditions that we believe to be material weaknesses. A material weakness is a condition in which the specific control procedures or the degree of compliance with them do not reduce to a relatively low level the risk that material errors or irregularities may occur and not be detected within a timely period by your employees in the normal course of performing their assigned functions.[8]

(Example of a Material Weakness:)

An inadequate segregation of duties exists with respect to cash transactions that results in inadequate control over cash sales, collections of accounts receivable, and cash disbursements.

We considered these conditions in determining the audit tests to be applied in our examination of your 19X1 financial statements. In addi-

---

[6] When the study and evaluation made as part of an audit is sufficient for expressing an opinion on the system, see SAS No. 30, paragraphs 37-46 (AU section 642.37-.46).

[7] If the report on an examination of the financial statements is qualified because of a restriction on the scope of the examination, the restriction and its effect on the evaluation of the system of internal accounting control should be indicated in the report. If a portion of the examination has been performed by other auditors, the principal auditor's report should make it clear that it does not cover the entities examined by the other auditors. If the other auditors have issued a report concerning material weaknesses, the principal auditor may wish to, but is not required to, refer to such report of the other auditors.

[8] If the auditor is aware of material weaknesses in internal accounting control, whether or not he is specifically engaged by the client to review and report on the system of internal accounting control, a communication as described in SAS No. 20 (AU section 323), "Required Communication of Material Weaknesses in Internal Accounting Control," is required. If management believes it is not practicable to correct such weaknesses, paragraph 9 of SAS No. 20 provides that the auditor may refer to the circumstances and summarize the weaknesses; a detailed communication of the circumstances and the related weaknesses is not required.

tion, we have discussed them with .... who has indicated that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the costs of correcting the weakness would exceed the benefits that would be derived.

This letter should not be distributed outside the Company.

.050 Report Based on Criteria Established by a Regulatory Agency

We understand that (recipient) has been awarded a grant of (amount) from (agency) for the period from (date) through (date) for use in accordance with the (title or description of program). We have made a study of those internal accounting control and administrative control procedures of (recipient) that we considered relevant to the criteria established by (agency), as set forth in (section) of its audit guide, issued (date). Our study included tests of compliance with such procedures during the period from (date) through (date). Our study did not constitute an audit of any financial statements prepared by (recipient).

The management of (recipient) is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those administrative control procedures comprehended in the (agency's) criteria is to provide similar assurance as to compliance with its related requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

We understand that procedures in conformity with the criteria referred to in the first paragraph of this report are considered by the (agency) to be adequate for its purpose in accordance with (name of Act) and related regulations, and that procedures not in conformity with those criteria indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe (recipient's) procedures were adequate for the agency's purposes, except for the conditions described (reference to appropriate section of report), which we believe are material weaknesses in relation to the grant to which this report refers. In addition to these weaknesses, other conditions that we believe are not in conformity with the criteria referred to above are described (reference to appropriate section of report).

This report is intended for the information of (recipient) and (agency) and should not be used for any other purpose.

[Source: SAS No. 30, paragraphs 39 and 59 (*AICPA Professional Standards,* AU section 642.39 and 642.59).]

.060 Pre-Award Survey—Report Based on Criteria Established by a Regulatory Agency

We understand that (applicant) has applied for a grant of (amount) from (agency) for the period from (date) through (date) for use in accordance with the (title or description of program). We have made a study of the design of those internal accounting control and administrative control procedures of (applicant) that we considered relevant to the criteria established by (agency), as set forth in (section) of its audit guide, issued (date). Since our study related to procedures (applicant) proposes to follow if the grant is awarded, it did not include tests of compliance with such procedures. Our study did not constitute an audit of any financial statements prepared by (applicant).

The management of (applicant) is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those administrative control procedures comprehended in the (agency's) criteria is to provide similar assurance as to compliance with its related requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

We understand that procedures in conformity with the criteria referred to in the first paragraph of this report are considered by the (agency) to be adequate for its purpose in accordance with (name of Act) and related regulations, and that procedures not in conformity with those criteria indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe (applicant's) procedures would be adequate for the agency's purposes assuming satisfactory compliance, except for the conditions described (reference to appropriate section of report), which we believe would be material weaknesses in relation to the grant to which this report refers.[6] In addition to these weaknesses, other conditions that we believe would not be in conformity with the criteria referred to above are described (reference to appropriate section of report).

This report is intended for the information of (applicant) and (agency) should not be used for any other purpose.

[Source: Interpretation No. 1 of SAS No. 30 (*AICPA Professional Standards,* AU section 9642).]

[6] If the auditor is aware of a material weakness in internal accounting control, whether or not he is specifically engaged by the client to review and report on the system of internal accounting control, a communication as described in SAS No. 20 (AU section 323), "Required Communication of Material Weaknesses in Internal Accounting Control", is required. For the form of such communication see paragraph 8 of SAS No. 20 (AU section 323.08), as amended by SAS No. 30 (AU section 642).

.070 Survey Made in Conjunction With an Audit—Report Based on Criteria Established by a Regulatory Agency

We understand that (recipient) has been awarded a grant of (amount) from (agency) for the period from (date) through (date) for use in accordance with the (title or description of program). We have made a study of those internal accounting control and administrative control procedures of (recipient) that we considered relevant to the criteria established by (agency), as set forth in (section) of its audit guide, issued (date). Our study included tests of compliance with such procedures during the period from (date) through (date). We have examined the financial statements of (recipient) for the year ended (date) and have issued our report therein dated (date).[7]

The management of (recipient) is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. We understand that the objective of those administrative control procedures comprehended in the (agency's) criteria is to provide similar assurance as to compliance with its related requirements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

We understand that procedures in conformity with the criteria referred to in the first paragraph of this report are considered by the (agency) to be adequate for its purpose in accordance with (name of Act) and related regulations, and that procedures not in conformity with those criteria indicate some inadequacy for such purposes. Based on this understanding and on our study, we believe (recipient's)

---

[7] If the report on an examination of the financial statements is qualified because of a restriction on the scope of the examination, the restriction and its effect on the evaluation of the system of internal accounting control should be indicated in the report. If a portion of the examination has been performed by other auditors, the principal auditor's report should make it clear that it does not cover the entities examined by the other auditors. If the other auditors have issued a report concerning material weaknesses, the principal auditor may wish to, but is not required to, refer to such report of the other auditors.

procedures were adequate for the agency's purposes, except for the conditions described (reference to apprbpriate section of report), which we believe are material weaknesses in relation to the grant to which this report refers.[8] In addition to these weaknesses, other conditions that we believe are not in conformity with the criteria referred to above are described (reference to appropriate section of report).

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 19X1 financial statements, and this report does not affect our report on those financial statements dated (date of report).

This report is intended for the information of (recipient) and (agency) and should not be used for any other purpose.

[Source: Interpretation No. 1 of SAS No. 30 (*AICPA Professional Standards,* AU section 9642).]

[8] If the auditor is aware of a material weakness in internal accounting control, whether or not he is specifically engaged by the client to review and report on the system of internal accounting control, a communication as described in SAS No. 20 (AU section 323), "Required Communication of Material Weaknesses in Internal Accounting Control", is required. For the form of such communication, see paragraph 8 of SAS No. 20 (AU section 323.08), as amended by SAS No. 30 (AU section 642).

.080 Report on the Design of the System of Internal Accounting Controls Maintained by a Service Organization *

To the Blank Service Center:

We have reviewed the accompanying description of the operations and control procedures of the Blank Service Center related to its payroll processing system as of (date) and identified specific control objectives and the procedures that achieve those objectives. Our review included procedures we considered necessary in the circumstances to evaluate the design of the control procedures specified in section 2. We did not test compliance with the control procedures and, accordingly, we do not express an opinion on whether those controls were being applied as prescribed for any period of time or on whether the system, taken as a whole, meets the objectives of internal accounting control. A further description of our review and its objections is attached.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

In our opinion, the control procedures included in the accompanying description of the payroll processing system of the Blank Service Center as of (date) are suitably designed to provide reasonable, but not absolute, assurance that the control objectives specified in section 2 would be achieved if the control procedures were complied with satisfactorily.

This report is intended solely for use by management of Blank Service Center, its customers, and the independent auditors of its customers.

[Source: SAS No. 44, paragraph 35 (*AICPA Professional Standards,* AU section 324.35).]

* The report assumes that the description of operations and control procedures is divided into two sections: Section 1 is the service organization's description of the system; section 2 lists specific control objectives and describes control procedures that achieve those objectives.

.081 Report on the Design of, and Compliance with, Certain Internal Accounting Control Procedures Maintained by a Service Organization *

To the Blank Service Center:

We have reviewed the accompanying description of the operations and control procedures of the Blank Service Center related to its payroll processing system and identified specific control objectives and the procedures that achieve those objectives. Our review, covering the period from (date) to (date), included such tests as we considered necessary to evaluate whether the procedures described in section 2 and the extent of compliance with them are sufficient to provide reasonable, but not absolute, assurance that the control objectives specified therein were achieved. We tested compliance only with the control procedures listed in section 2. Accordingly, we do not express an opinion on whether all of the controls described in section 1 were being applied as prescribed for any period of time or on whether the system, taken as a whole, meets the objectives of internal accounting control. A further description of our review and its objectives is attached.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In our opinion, the control procedures of the Blank Service Center payroll processing system described in section 2 and the degree of compliance with them were sufficient to provide reasonable, but not absolute, assurance that the control objectives specified therein were achieved for the period from (date) to (date).

This report is intended solely for use by management of Blank Service Center, its customers, and the independent auditors of its customers.

[Source: SAS No. 44, paragraph 41 *(AICPA Professional Standards,* AU section 324.41).]

---

*The report assumes that the description of operations and control procedures is divided into two sections: Section 1 is the service organization's description of the system; section 2 lists specific control objectives and describes control procedures that achieve those objectives.

.082 Report on a System of Internal Accounting Control of a Segment of a Service Organization

To the Blank Bank and Trust Company:

We have made a study and evaluation of the system of internal accounting control of the trust department of Blank Bank and Trust Company that existed during the period from (date) to (date), which department has responsibility for personal, custodial, and corporate trust accounts. Our study and evaluation was conducted in accordance with standards established by the American Institute of Certified Public Accountants.

The management of Blank Bank and Trust Company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide management with reasonable, but not absolute, assurance that assets for which the trust department has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and in conformity with the governing instruments and are recorded properly to permit the preparation of the required financial reports.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, the system of internal accounting control of the trust department of Blank Bank and Trust Company that existed during the period from (date) to (date), taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial statements of Blank Bank and Trust Company.

[Source: SAS No. 44, paragraph 46 (*AICPA Professional Standards,* AU section 324.46).]

The next page is 10,521.

AAM Section 10,260

Special Reports

.010 Cash Basis Statements

We have examined the statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note X, the Company's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the revenue collected and expenses paid during the year then ended, on the basis of accounting described in Note X, which basis has been applied in a manner consistent with that of the preceding year.

[Source: SAS No. 14, paragraph 8 (*AICPA Professional Standards,* AU section 621.08).]

.020 Income Tax Basis Statements

We have examined the statement of assets, liabilities, and capital—income tax basis of ABC Partnership as of December 31, 19XX, and the related statements of revenue and expenses—income tax basis and of changes in partners' capital accounts—income tax basis for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note X, the Partnership's policy is to prepare its financial statements on the accounting basis used for income tax purposes; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the assets, liabilities, and capital of ABC Partnership as of December 31, 19XX, and its revenue and expenses and changes in its partners' capital accounts for the year then ended, on the basis of accounting described in Note X, which basis has been applied in a manner consistent with that of the preceding year.

[Source: SAS No. 14, paragraph 8 (*AICPA Professional Standards,* AU section 621.08).]

.030 Regulatory (Statutory) Basis Statements

We have examined the statement of admitted assets, liabilities, and surplus—statutory basis of XYZ Insurance Company as of December 31, 19XX, and the related statements of income—statutory basis and changes in surplus—statutory basis for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note X, the Company's policy is to prepare its financial statements on the basis of accounting practices prescribed or permitted by the Insurance Department of [State]. These practices differ in some respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. This report is intended solely for filing with regulatory agencies and is not intended for any other purpose.

In our opinion, the financial statements referred to above present fairly the admitted assets, liabilities and surplus of XYZ Insurance Company as of December 31, 19XX, and the results of its operations and changes in its surplus for the year then ended, on the basis of accounting described in Note X, which basis has been applied in a manner consistent with that of the preceding year.

[Source: SAS No. 14, paragraph 8 (*AICPA Professional Standards,* AU section 621.08).]

.040 Pension Plan Statements with Scope Restrictions Elected by Plan Administrator

We have examined the financial statements and schedules of XYZ Pension Plan as of December 31, 19XX and for the year then ended, as listed in the accompanying index. Except as stated in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The plan administrator has elected the method of compliance permitted by section 2520.103-8 of the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Accordingly, as permitted under such election, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information certified by the ABC Bank, the trustee of the plan, except for comparing such information, which is summarized in note X, to the related information included in the financial statements and schedules. We have been informed by the plan administrator that the trustee holds the plan's investment assets and executes transactions therein. The plan administrator has obtained a certification from the trustee that the information provided to the plan administrator by the trustee is complete and accurate.[1]

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, has been examined by us and, in our opinion, is presented in compliance with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.[2]

[Source: *AICPA Professional Standards,* AU section 9621.04, an interpretation of SAS No. 14.]

---

[1] Certain data furnished and certified by a bank or similar institution or insurance carrier are based on information supplied by the plan administrator. Accordingly, the auditor should satisfy himself that the amounts reported by the trustee as being received from, and disbursed at the direction of, the plan administrator or other authorized party have been properly determined in accordance with the terms of the plan and that the information included in the financial statements and schedules have been presented in compliance with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

If the auditor is precluded from performing these procedures, he should issue a disclaimer of opinion in accordance with SAS No. 26 (AU section 504).

[2] Section 2520.103-1(b)(3) of the rules and regulations requires that the financial statements include a footnote describing the accounting principles and practices reflected in the financial statements, and, if applicable, variances from generally accepted accounting principles.

.050 Rental Computation Report Based on Gross Sales

Board of Directors
ABC Company

We have examined the schedule of gross sales (as defined in the lease agreement dated March 4, 19XX, between ABC Company, as lessor, and XYZ Stores Corporation, as lessee) of XYZ Stores Corporation at its Main Street store, [City], [State], for the year ended December 31, 19XX. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the schedule of gross sales referred to above presents fairly the gross sales of XYZ Stores Corporation at its Main Street store, [City], [State], for the year ended December 31, 19XX, on the basis specified in the lease agreement referred to above.

[Source: SAS No. 14, paragraph 14 (*AICPA Professional Standards,* AU section 621.14).]

.060 Royalties

Board of Directors
XYZ Corporation

We have examined the schedule of royalties applicable to engine production of the Q Division of XYZ Corporation for the year ended December 31, 19XX, under the terms of a license agreement dated May 14, 19XX, between ABC Company and XYZ Corporation. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have been informed that, under XYZ Corporation's interpretation of the agreement referred to above, royalties were based on the number of engines produced after giving effect to a reduction for production retirements that were scrapped, but without a reduction for field returns that were scrapped, even though the field returns were replaced with new engines without charge to customers. This treatment is consistent with that followed in prior years.

In our opinion, the schedule of royalties referred to above presents fairly the number of engines produced by the Q Division of XYZ Corporation during the year ended December 31, 19XX, and the amount of royalties applicable thereto under the license agreement referred to above, on the basis indicated in the preceding paragraph.

[Source: SAS No. 14, paragraph 14 (*AICPA Professional Standards*, AU section 621.14).]

.070 Profit Participation[3]

Mr. John Smith

We have examined XYZ Company's schedule of John Smith's profit participation for the year ended December 31, 19X1. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have examined the financial statements of XYZ Company for the year ended December 31, 19X1, and have issued our report thereon dated March 10, 19X2.

We have been informed that the documents that govern the determination of John Smith's profit participation are (a) the employment agreement between John Smith and XYZ Company dated February 1, 19X0, (b) the production and distribution agreement between XYZ Company and Television Network Incorporated dated March 1, 19X0, and (c) the studio facilities agreement between XYZ Company and QRX Studios dated April 1, 19X0, as amended November 1, 19X0.

In our opinion, the schedule of profit participation referred to above presents fairly John Smith's participation in the profits of XYZ Company for the year ended December 31, 19X1, in accordance with the provisions of the agreements referred to in the preceding paragraph.

[Source: SAS No. 14, paragraph 14 (*AICPA Professional Standards,* AU section 621.14).]

[3] A report on an examination of a schedule of profit participation should be issued only if the auditor has examined the financial statements on which the participation is based.

.080 Report Relating to the Adequacy of a Provision for Income Taxes in Financial Statements [4]

We have examined the financial statements of XYZ Company, Inc., for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In the course of our examination, we examined the provision for federal and state income taxes for the year ended June 30, 19XX, included in the Company's financial statements referred to in the preceding paragraph. We also reviewed the federal and state income tax returns filed by the Company that are subject to examination by the respective taxing authorities.

In our opinion, the Company has paid or has provided adequate accruals in the financial statements referred to above for the payment of all federal and state income taxes, and has provided for related deferred income taxes, applicable to fiscal 19XX and prior fiscal years, that could be reasonably estimated at the time of our examination of the financial statements of XYZ Company, Inc., for the year ended June 30, 19XX.

[Source: SAS No. 14, paragraph 14 (*AICPA Professional Standards,* AU section 621.14).]

---

[4] A report relating to the adequacy of a provision for income taxes in financial statements should be issued only if the auditor has examined the financial statements in which the provision appears.

If a significant period of time has elapsed between the date of the auditor's report on the financial statements and the date he is reporting on the provision for income taxes, the auditor may wish to include the following paragraph in his report:

> Because we have not examined any financial statements of XYZ Company, Inc., as of any date or for any period subsequent to June 30, 19XX, we have no knowledge of the effects, if any, on the income tax provision of events that may have occurred subsequent to the date of our examination.

.090 Proposed Acquisition

Board of Directors
X Company

We have applied certain agreed-upon procedures, as discussed below, to accounting records of Y Company, Inc., as of December 31, 19XX, solely to assist you in connection with the proposed acquisition of Y Company, Inc. It is understood that this report is solely for your information and is not to be referred to or distributed for any purpose to anyone who is not a member of management of X Company. Our procedures and findings are as follows:

a. We reconciled cash on deposit with the following banks to the balances in the respective general ledger accounts and obtained confirmation of the related balances from the banks.

Bank	*Balance Per General Ledger*
ABC National Bank	$ 5,000
DEF State Bank	13,776
XYZ Trust Company—regular account	86,912
XYZ Trust Company—payroll account	5,000

b. We obtained an aged trial balance of the accounts receivable subsidiary records, traced the age and amounts of approximately 10 percent of the accounts to the accounts receivable ledger, and added the trial balance and compared the total with the balance in the general ledger control account. We mailed requests for positive confirmation of balances to 150 customers. The differences disclosed in confirmation replies were minor in amount and nature, and we reconciled them to our satisfaction. The results are summarized as follows:

	Accounts Receivable Aging and Confirmation		
	Account	*Confirmation Results*	
	Balance	*Requested*	*Received*
Current	$156,000	$ 76,000	$ 65,000
Past due:			
Less than one month	60,000	30,000	19,000
One to three months	36,000	18,000	10,000
Over three months	48,000	48,000	8,000
	$300,000	$172,000	$102,000

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the specified accounts or items should be adjusted. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of Y Company, Inc., taken as a whole.

[Source: SAS No. 35, paragraph 6 (*AICPA Professional Standards,* AU section 622.06).]

.100 Claims of Creditors

Trustee
XYZ Company

At your request, we have performed the procedures enumerated below with respect to the claims of creditors of XYZ Company as of May 31, 19XX, set forth in the accompanying schedules. Our review was made solely to assist you in evaluating the reasonableness of those claims, and our report is not to be used for any other purpose. The procedures we performed are summarized as follows:

a. We compared the total of the trial balance of accounts payable at May 31, 19XX, prepared by the company, to the balance in the company's related general ledger account.

b. We compared the claims received from creditors to the trial balance of accounts payable.

c. We examined documentation submitted by the creditors in support of their claims and compared it to documentation in the company's files, including invoices, receiving records, and other evidence of receipt of goods or services.

Our findings are presented in the accompanying schedules. Schedule A lists claims that are in agreement with the company's records. Schedule B lists claims that are not in agreement with the company's records and sets forth the differences in amounts.

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on the accounts payable balance as of May 31, 19XX. In connection with the procedures referred to above, except as set forth in Schedule B, no matters came to our attention that caused us to believe that the accounts payable balance might require adjustment. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of XYZ Company, taken as a whole.

[Source: SAS No. 35, paragraph 6 (*AICPA Professional Standards,* AU section 622.06).]

.110 Compliance with Contractual Provisions (Separate Report)

We have examined the balance sheet of XYZ Company as of December 31, 19X1, and the related statements of income, retained earnings, and changes in financial position for the year then ended, and have issued our report thereon dated February 16, 19X2. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, nothing came to our attention that caused us to believe that the Company was not in compliance with any of the terms, covenants, provisions, or conditions of sections XX to XX, inclusive, of the Indenture dated July 21, 19X0, with ABC Bank. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such noncompliance.

[Source: SAS No. 14, paragraph 19 (*AICPA Professional Standards,* AU section 621.19).]

.120 Compliance with Contractual Provisions (Auditor's Report Accompanying Financial Statements)

We have examined the balance sheet of XYZ Company as of December 31, 19X1, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of XYZ Company as of December 31, 19X1, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In connection with our examination, nothing came to our attention that caused us to believe that the Company was not in compliance with any of the terms, covenants, provisions, or conditions of sections XX to XX, inclusive, of the Indenture dated July 21, 19X0, with ABC Bank. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such noncompliance.

[Source: SAS No. 14, paragraph 19 (*AICPA Professional Standards,* AU section 621.19).]

.130 Compliance with Regulatory Requirements

We have examined the balance sheet of XYZ Company as of December 31, 19X1, and the related statements of income, retained earnings, and changes in financial position for the year then ended, and have issued our report thereon dated March 5, 19X2. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, nothing came to our attention that caused us to believe that the Company had failed to comply with the limitation and increased investment requirement in section 993(d)(2) and (3) of the Internal Revenue Code of 1954. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of noncompliance with such requirements.

[Source: SAS No. 14, paragraph 19 (*AICPA Professional Standards,* AU section 621.19).]

.140 Special Purpose Financial Statements Prepared Pursuant to a Loan Agreement—Effects of Departures from Generally Accepted Accounting Principles Disclosed in a Note to the Statements

We have examined the special-purpose balance sheet of ABC Company as of December 31, 19X1, and the related special-purpose statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in, Section 4 of a loan agreement between DEF Bank and the Company dated (date). These practices differ, as described in Note X, from generally accepted accounting principles. Accordingly, the financial statements are not intended to present and, in our opinion, do not present fairly the financial position, results of operations and changes in financial position of ABC Company in conformity with generally accepted accounting principles.

In our opinion, however, the accompanying special-purpose financial statements of ABC Company are presented fairly on the basis of accounting described in Note X, which basis has been applied in a manner consistent with that of the preceding year.

[Source: *AICPA Professional Standards,* AU section 9621.25, an interpretation of SAS No. 14 (AU section 621).]

.141 Special Purpose Financial Statements Prepared Pursuant to a Loan Agreement—Effects of Departures from Generally Accepted Accounting Principles Disclosed by Referring to Coexisting Audited Financial Statements

We have examined the special-purpose balance sheet of ABC Company as of December 31, 19X1, and the related special-purpose statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in, section 4 of a loan agreement between DEF Bank and the Company dated (date). These practices differ, as described in Note X, from generally accepted accounting principles. Accordingly, the financial statements are not intended to present and, in our opinion, do not present fairly the financial position, results of operations and changes in financial position of ABC Company in conformity with generally accepted accounting principles. The monetary effects of the departures from generally accepted accounting principles can be determined by comparing the special-purpose financial statements with the financial statements of ABC Company for the year ended December 31, 19X1, prepared in conformity with generally accepted accounting principles on which we issued our report dated February 14, 19X2.

In our opinion, however, the accompanying special-purpose financial statements of ABC Company are presented fairly on the basis of accounting described in Note X, which basis has been applied in a manner consistent with that of the preceding year.

[Source: *AICPA Professional Standards,* AU section 9621.25, an interpretation of SAS No. 14 (AU section 621).]

.142 Special Purpose Financial Statements Prepared Pursuant to an Acquisition Agreement—Effects of Departures from Generally Accepted Accounting Principles Have Not Been Determined

We have examined the special-purpose balance sheet of ABC Company as of June 30, 19XX, and the related special-purpose statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in, an acquisition agreement dated May 15, 19XX, between ABC Company and DEF Company. These practices differ, as described in Note X, from generally accepted accounting principles; the monetary effects on the accompanying financial statements of such differences have not been determined. Accordingly, we are unable to and do not express an opinion on whether the accompanying special-purpose financial statements fairly present the financial position, results of operations and changes in financial position of ABC Company in conformity with generally accepted accounting principles.

In our opinion, however, the accompanying special-purpose financial statements of ABC Company are presented fairly on the basis of accounting described in Note X.

[Source: *AICPA Professional Standards,* AU section 9621.25, an interpretation of SAS No. 14 (AU section 621).]

→ *The next page is 10,541.* ←

.150 Special Purpose Financial Presentation—Schedule of Gross Income and Certain Expenses

We have examined the accompanying Historical Summary of Gross Income and Direct Operating Expenses of ABC Apartments, City, State, for each of the three years in the period ended December 31, 19XX. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The accompanying historical summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the registration statement on Form S-11 of DEF Corporation) and excludes certain material expenses, described in Note X, that would not be comparable to those resulting from the proposed future operations of the property.

In our opinion, the historical summary referred to above presents fairly the gross income and direct operating expenses described in Note X of ABC Apartments for each of the three years in the period ended December 31, 19XX, in conformity with generally accepted accounting principles applied on a consistent basis.

[Source: *AICPA Professional Standards,* AU section 9621.31, an interpretation of SAS No. 14 (AU section 621).]

.151 Special Purpose Financial Presentation—Statement of Assets Sold and Liabilities Transferred

We have examined the statement of net assets of ABC Company as of June 8, 19XX, sold pursuant to the Purchase Agreement as described in Note X, between ABC Company and XYZ Corporation dated May 8, 19XX. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement presents fairly the net assets of ABC Company as of June 8, 19XX, sold pursuant to the purchase agreement referred to above, in conformity with generally accepted accounting principles.

[Source: *AICPA Professional Standards,* AU section 9621.31, an interpretation of SAS No. 14 (AU section 621).]

The next page is 10,571.

AAM Section 10,270

Unaudited Financial Statements of a Public Entity

.01 Disclaimer

The accompanying balance sheet of X Company as of December 31, 19X1, and the related statements of income, retained earnings, and changes in financial position for the year then ended were not audited by us, and, accordingly, we do not express an opinion on them.

(Signature and date)

[Source: SAS No. 26, paragraph 5 (*AICPA Professional Standards,* AU section 504.05).]

NOTES:

- The disclaimer may accompany the unaudited financial statements or it may be placed directly on them. In addition, each page of the financial statements should be clearly and conspicuously marked as unaudited.
- If the unaudited financial statements are those of a privately held (nonpublic) company, this example is not appropriate. See AAM sections 10,400 and 10,500.

.02 Current Period Financial Statements Unaudited —Prior Period Financial Statements Audited

The accompanying balance sheet of ABC Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

The financial statements for the year ended December 31, 19X1, were examined by us (other accountants) and we (they) expressed an unqualified opinion on them in our (their) report dated March 1, 19X2, but we (they) have not performed any auditing procedures since that date.

[Source: SAS No. 26, paragraph 16 (*AICPA Professional Standards,* AU section 504.16).]

NOTES:

- The disclaimer may accompany the unaudited financial statements or it may be placed directly on them. In addition, each page of the financial statements should be clearly and conspicuously marked as unaudited.
- If the unaudited financial statements are those of a privately held (nonpublic) company, this example is not appropriate. See AAM sections 10,400 and 10,500.

.03 Disclaimer—Cash Basis Statements

The accompanying statement of assets and liabilities resulting from cash transactions of XYZ Corporation as of December 31, 19X1, and the related statement of revenues collected and expenses paid during the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

(Signature and date)

[Source: SAS No. 26, paragraph 7 (*AICPA Professional Standards,* AU section 504.07).]

NOTES:

- A note to the financial statements should describe how the basis of presentation differs from generally accepted accounting principles, but the monetary effect of such differences need not be stated.
- The disclaimer may accompany the unaudited financial statements or it may be placed directly on them. In addition, each page of the financial statements should be clearly and conspicuously marked as unaudited.

.04 Disclaimer—Regulatory (Statutory) Basis Statements

The accompanying statement of admitted assets, liabilities, and surplus (statutory basis) of XYZ Insurance Company as of December 31, 19XX, and the related statements of income (statutory basis) and changes in surplus (statutory basis) for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

(Signature and date)

NOTES:

- A note to the financial statements should describe how the basis of presentation differs from generally accepted accounting principles, but the monetary effect of such differences need not be stated.
- The disclaimer may accompany the unaudited financial statements or it may be placed directly on them. In addition, each page of the financial statements should be clearly and conspicuously marked as unaudited.
- The above sample report was prepared to illustrate matters presented in SAS No. 26, paragraph 7 (*AICPA Professional Standards,* AU section 504.07).

The next page is 10,621.

AAM Section 10,280

Lack of Independence

.01 Disclaimer

We are not independent with respect to XYZ Company, and the accompanying balance sheet as of December 31, 19X1, and the related statements of income, retained earnings, and changes in financial position for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

[Source: SAS No. 26, paragraph 10 (*AICPA Professional Standards,* AU section 504.10).]

NOTES:

- When an accountant is not independent, any procedures he might perform would not be in accordance with generally accepted auditing standards and he would be precluded from expressing an opinion on the financial statements. Accordingly, he would disclaim an opinion with respect to the financial statements and state specifically that he is not independent. The accountant should not include in his disclaimer the reasons for the lack of independence or any description of the procedures he has performed; including such matters might confuse readers concerning the importance of the lack of independence.
- If the statements are those of a nonpublic entity, see Statement on Standards for Accounting and Review Services No. 1, paragraphs 22 and 38 (AR section 100.22 and 100.38). See AAM sections 10,400 and 10,500.

The next page is 10,671.

AAM Section 10,300

Review of Interim Financial Information

.01 Accountant's Report

We have made a review of (describe the information or statements reviewed) of ABC Company and consolidated subsidiaries as of September 30, 19X1 and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial (information or statements) for them to be in conformity with generally accepted accounting principles.

[Source: SAS No. 36, paragraph 18 (*AICPA Professional Standards,* AU section 722.18).]

NOTE:

SAS No. 36 (AU section 722) applies to reviews of interim financial information presented alone of a publicly-traded company; for this purpose the term interim includes financial statements or information of a twelve-month period ending on a date other than the company's normal year-end.

.02 Accountant's Report—Comparative

We have made a review of (describe the information or statements reviewed) of ABC Company and consolidated subsidiaries as of September 30, 19X1 and 19X0 and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial (information or statements) for them to be in conformity with generally accepted accounting principles.

[Source: SAS No. 36, paragraph 18 (*AICPA Professional Standards,* AU section 722.18).]

NOTE:

SAS No. 36 (AU section 722) applies to reviews of interim financial information presented alone of a publicly-traded company; for this purpose the term interim includes financial statements or information of a twelve-month period ending on a date other than the company's normal year-end.

.03 Reference to Other Accountants

We have made a review of (describe the information or statements reviewed) of ABC Company and consolidated subsidiaries as of September 30, 19X1, and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We were furnished with the report of other accountants on their review of the interim financial information of the ADE subsidiary, whose total assets and revenues constitute 20 percent and 22 percent, respectively, of the related consolidated totals.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review and the report of other accountants, we are not aware of any material modifications that should be made to the accompanying financial (information or statements) for them to be in conformity with generally accepted accounting principles.

[Source: SAS No. 36, paragraph 19 (*AICPA Professional Standards,* AU section 722.19).]

NOTE:

SAS No. 36 (AU section 722) applies to reviews of interim financial information presented alone of a publicly-traded company; for this purpose the term interim includes financial statements or information of a twelve-month period ending on a date other than the company's normal year-end.

.04 Departure from GAAP

We have made a review of (describe the information or statements reviewed) of ABC Company and consolidated subsidiaries as of September 30, 19X1 and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on information furnished us by management, we believe that the Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that should be capitalized in order to conform with generally accepted accounting principles. This information indicates that if these lease obligations were capitalized at September 30, 19X1, property would be increased by $.........., and long-term debt by $.........., and net income and earnings per share would be increased (decreased) by $............, $............, $............, and $............, respectively, for the three-month and nine-month periods then ended.

(Concluding paragraph)

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying financial (information or statements) for them to be in conformity with generally accepted accounting principles.

[Source: SAS No. 36, paragraph 21 (*AICPA Professional Standards,* AU section 722.21).]

NOTE:

SAS No. 36 (AU section 722) applies to reviews of interim financial information presented alone of a publicly-traded company; for this purpose the term interim includes financial statements or information of a twelve-month period ending on a date other than the company's normal year-end.

.05 Inadequate Disclosure

We have made a review of (describe the information or statements reviewed) of ABC Company and consolidated subsidiaries as of September 30, 19X1 and for the three-month and nine-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management has informed us that the Company is presently contesting deficiencies in federal income taxes proposed by the Internal Revenue Service for the years 19XX through 19XY in the aggregate amount of approximately $.........., and that the extent of the Company's liability, if any, and the effect on the accompanying (information or statements) are not determinable at this time. The (information or statements) fail to disclose these matters, which we believe are required to be disclosed in conformity with generally accepted accounting principles.

(Concluding paragraph)

Based on our review, with the exception of the matter(s) described in the preceding paragraph(s), we are not aware of any material modifications that should be made to the accompanying financial (information or statements) for them to be in conformity with generally accepted accounting principles.

[Source: SAS No. 36, paragraph 22 (*AICPA Professional Standards,* AU section 722.22).]

NOTE:

SAS No. 36 (AU section 722) applies to reviews of interim financial information presented alone of a publicly-traded company; for this purpose the term interim includes financial statements or information of a twelve-month period ending on a date other than the company's normal year-end.

.06 Restricted Scope of Review Stated in an Auditor's Report

We have examined the balance sheets of ABC Company as of [at] December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of X Company as of [at] December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The selected quarterly financial data on page xx contain information that we did not audit and, accordingly, we do not express an opinion on that data. We attempted but were unable to review the quarterly data in accordance with standards established by the American Institute of Certified Public Accountants because we believe that the Company's system for preparing interim financial information does not provide an adequate basis to enable us to complete such a review.

[Source: SAS No. 36, paragraph 29 (*AICPA Professional Standards,* AU section 722.29).]

NOTE:

See paragraphs 24—30 of SAS No. 36 (AU section 722.24—.30) for guidance on reporting on interim financial information accompanying audited financial statements.

The next page is 10,721.

AAM Section 10,400

Accountant's Report on Compilation of Financial Statements of a Nonpublic Entity

.01 Accountant's Standard Report

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.02 Omission of Substantially All Disclosures

I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: SSARS No. 1, paragraph 21, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.21, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

This form of report is appropriate only for a compilation engagement, not for a review engagement.

.03 Omission of Statement of Changes in Financial Position and Substantially All Disclosures

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of changes in financial position required by generally accepted accounting principles. If the omitted disclosures and the statement of changes in financial position were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: SSARS No. 1, paragraph 21, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 100.21, as amended by AR section 500.02).]

NOTES:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

This form of report is appropriate only for a compilation engagement, not for a review engagement.

.04 Accountant Not Independent

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

I am (we are) not independent with respect to XYZ Company.[1]

[Sources: SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 100.17, as amended by AR section 500.02) and SSARS No. 1, paragraph 22 (*AICPA Professional Standards,* AR section 100.22).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

[1] In making a judgment about whether he is independent, the accountant should be guided by the AICPA Code of Professional Ethics. For example, the accountant should be aware that interpretation 101-3 (ET section 101.04) under rule 101 (ET section 101.01) of the rules of conduct indicates that independence is not necessarily impaired when an accountant provides manual or automated bookkeeping or data processing services to a client.

.05 Departure from GAAP—Omission of Statement of Changes in Financial Position

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

A statement of changes in financial position for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.

[Source: SSARS No. 1, paragraph 40, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.40, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.06 Departure from GAAP—Accounting Principles Not Generally Accepted

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure (certain departures) from generally accepted accounting principles that is (are) described in the following paragraph.

As disclosed in note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if generally accepted accounting principles had been followed, the land account and stockholders' equity would have been decreased by $500,000.

[Source: SSARS No. 1, paragraph 40, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.40, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.07 Cash Basis Statements *—Full Disclosure

I (We) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

.08 Cash Basis Statements—Omission of Substantially All Disclosures

I (We) have compiled the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19X4, and the related statement of revenue collected and expenses paid for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. The financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the informative disclosures ordinarily included in financial statements. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.41-.45).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.09 Income Tax Basis Statements *—Full Disclosure

I (We) have compiled the accompanying statement of assets, liabilities, and capital—income tax basis of ABC Partnership as of December 31, 19XX, and the related statements of revenue and expenses—income tax basis and of changes in partners' capital accounts—income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

.10 Income Tax Basis Statements—Omission of Substantially All Disclosures, With No Reference to Basis

I (We) have compiled the accompanying statement of assets, liabilities, and equity—income tax basis of XYZ Company as of December 31, 19XX, and the related statement of revenue and expenses—income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the Company for Federal income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the income tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.11 Compilation Each Period—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: SSARS No. 2, paragraph 9, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 200.09, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.12 Compilation Report on Current Period and Reference to Review Report on Prior Period—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying 19X1 financial statements of XYZ Company were previously reviewed by me (us) and my (our) report dated March 1, 19X2, stated that I was (we were) not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles. I (we) have not performed any procedures in connection with that review engagement after the date of my (our) report on the 19X1 financial statements.

[Sources: SSARS No. 2, paragraph 12 (*AICPA Professional Standards*, AR section 200.12) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.13 Changed Reference to a Departure from Generally Accepted Accounting Principles [2]—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

In my (our) previous compilation report dated March 1, 19X2, on the 19X1 financial statements, I (we) referred to a departure from generally accepted accounting principles because the company carried its land at appraised values. However, as disclosed in Note X, the company has restated its 19X1 financial statements to reflect its land at cost in accordance with generally accepted accounting principles.

[Sources: SSARS No. 2, paragraph 15 (*AICPA Professional Standards,* AR section 200.15) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

[2] A changed reference to a departure from generally accepted accounting principles includes the removal of a prior reference or the inclusion of a new reference.

.14 Predecessor's Compilation Report on Prior Period Not Presented—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The 19X1 financial statements of XYZ Company were compiled by other accountants whose report dated February 1, 19X2, stated that they did not express an opinion or any other form of assurance on those statements.

[Sources: SSARS No. 2, paragraph 19, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 200.19, as amended by AR section 500.02) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.15 Predecessor's Review Report on Prior Period Not Presented—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The 19X1 financial statements of XYZ Company were reviewed by other accountants whose report dated March 1, 19X2, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

[Sources: SSARS No. 2, paragraph 18 (*AICPA Professional Standards*, AR section 200.18) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.16 Prior Period Audited—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The financial statements for the year ended December 31, 19X1, were examined by me (us) (other accountants) and I (we) (they) expressed an unqualified opinion on them in my (our) (their) report dated March 1, 19X2, but I (we) (they) have not performed any auditing procedures since that date.

[Sources: SSARS No. 2, paragraph 28 (*AICPA Professional Standards*, AR section 200.28) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards*, AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.17 Omission of Substantially All Disclosures Including Those for Prior Period Previously Not Omitted—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The accompanying 19X1 financial statements were compiled by me (us) from financial statements that did not omit substantially all of the disclosures required by generally accepted accounting principles and that I (we) previously compiled (reviewed) as indicated in my (our) report dated March 1, 19X2.

[Source: SSARS No. 2, paragraph 30, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 200.30, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.18 Prior Period Disclaimed Pursuant to SAS No. 1, Section 516 *—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The 19X1 financial statements of XYZ Company were reported upon by me (us) in accordance with standards then in effect and my (our) report dated March 1, 19X2 stated that I (we) had not audited those financial statements and, accordingly, did not express an opinion on them.[7]

[Sources: SSARS No. 2, paragraph 34 (*AICPA Professional Standards,* AR section 200.34) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2) (*AICPA Professional Standards,* AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* SAS No. 1, section 516 is superseded by SAS No. 26 issued in November 1979 (*AICPA Professional Standards,* AU section 504).

[7] As indicated in SSARS No. 2, paragraph 33, the continuing accountant may also reissue his previous report or comply with the compilation or review standards in SSARS No. 1 (or perform an audit) with respect to unaudited financial statements for periods ending before July 1, 1979.

.19 Predecessor's Disclaimer Pursuant to SAS No. 1, Section 516 * Not Presented—Comparative Financial Statements

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying 19X2 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The 19X1 financial statements of XYZ Company were reported upon by other accountants in accordance with standards then in effect and their report dated February 1, 19X2 stated that they had not audited those financial statements and, accordingly, did not express an opinion on them.

[Sources: SSARS No. 2, paragraph 34 (*AICPA Professional Standards,* AR section 200.34) and SSARS No. 1, paragraph 17, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 100.17, as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* SAS No. 1, section 516 is superseded by SAS No. 26 issued in November 1979 (*AICPA Professional Standards,* AU section 504).

.20 Financial Statements Accompanied by Supplementary Information

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, and the accompanying (identify the supplementary information, for example, schedules of cost of goods sold and selling, general and administrative expenses), which are presented only for supplementary analysis purposes, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: SSARS No. 1, paragraph 43 (*AICPA Professional Standards,* AR section 100.43).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.21 Financial Statements Included in Certain Prescribed Forms

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended included in the accompanying prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (our) compilation was limited to presenting in the form prescribed by ABC Bank information that is the representation of management (owners). I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of ABC Bank, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

[Source: SSARS No. 3, paragraph 3, as amended by SSARS No. 5, paragraph 2 (*AICPA Professional Standards,* AR section 300.03), as amended by AR section 500.02).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity. SSARS No. 3 provides for an alternative form of standard compilation report when a prescribed form or related instructions call for departure from generally accepted accounting principles or another comprehensive basis of accounting.

.22 Financial Statements Included in Certain Prescribed Forms—Departure from GAAP Not Called for by the Prescribed Forms

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended included in the accompanying prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (our) compilation was limited to presenting in the form prescribed by ABC Trade Association information that is the representation of management (owners). I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is not called for by the prescribed form or related instructions, as described in the following paragraph.

As disclosed in note X to the financial statements, generally accepted accounting principles require that land be stated at cost. Management has informed me (us) that the company has stated its land at appraised value and that, if generally accepted accounting principles have been followed, the land account and stockholders' equity would have been decreased by $500,000.

These financial statements (including related disclosures) are otherwise presented in accordance with the requirements of ABC Trade Association, which also differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

[Source: SSARS No. 3, paragraph 4 (*AICPA Professional Standards,* AR section 300.04).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity. SSARS No. 3 provides for an alternative form of standard compilation report when a prescribed form or related instructions call for departure from generally accepted accounting principles or another comprehensive basis of accounting.

.23 Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern")

I (We) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

As discussed in Note X, certain conditions indicate that the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.*

[Sources: SSARS No. 1, paragraph 40 and Accounting and Review Services Interpretation No. 11 of SSARS No. 1 (*AICPA Professional Standards,* AR section 100.40 and AR section 9100.38).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

The next page is 10,771.

* Although not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his compilation report.

AAM Section 10,500

Accountant's Report on Review of Financial Statements of a Nonpublic Entity

.01 Accountant's Standard Report

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

[Source: SSARS No. 1, paragraph 35 (*AICPA Professional Standards*, AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.02 Departure from GAAP—Accounting Principle Not Generally Accepted

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As disclosed in note X to the financial statements, generally accepted accounting principles require that inventory cost consist of material, labor, and overhead. Management has informed me (us) that the inventory of finished goods and work in process is stated in the accompanying financial statements at material and labor cost only, and that the effects of this departure from generally accepted accounting principles on financial position, results of operations, and changes in financial position have not been determined.

[Source: SSARS No. 1, paragraph 40 (*AICPA Professional Standards,* AR section 100.40).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.03 Departure from GAAP—Change in Accounting Principle Without Reasonable Justification

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As disclosed in note X to the financial statements, the company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although the (description of newly adopted method) is in conformity with generally accepted accounting principles, the company does not appear to have reasonable justification for making a change as required by Opinion No. 20 of the Accounting Principles Board.

[Source: SSARS No. 1, paragraph 40 (*AICPA Professional Standards,* AR section 100.40).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.04 Departure from GAAP—Omission of Statement of Changes in Financial Position

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, and retained earnings, for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

A statement of changes in financial position for the year ended December 31, 19XX, has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operations.

[Source: SSARS No. 1, paragraph 40 (*AICPA Professional Standards,* AR section 100.40).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.05 Cash Basis Statements *—Full Disclosure

I (we) have reviewed the accompanying statement of assets and liabilities arising from cash transactions of XYZ Company as of December 31, 19XX, and the related statement of revenue collected and expenses paid for the year ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the cash basis of accounting, as described in Note X.

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.41-.45).]

.06 Income Tax Basis Statements *—Full Disclosure

I (we) have reviewed the accompanying statement of assets, liabilities, and equity—income tax basis of XYZ Company as of December 31, 19XX, and the related statement of revenue and expenses—income tax basis for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the basis of accounting, as described in Note X.

[Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* When financial statements are prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles, the notes ordinarily would state the basis of presentation and describe how that basis differs from generally accepted accounting principles. [Source: Accounting and Review Services Interpretation No. 12 of SSARS No. 1 (*AICPA Professional Standards,* AR section 9100.45).]

.07 Review Each Period—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheets of XYZ Company as of December 31, 19X2 and 19X1, and the related statements of income, retained earnings, and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

[Source: SSARS No. 2, paragraph 9 (*AICPA Professional Standards,* AR section 200.09).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.08 Review Report on Current Period and Reference to Compilation Report on Prior Period—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The accompanying 19X1 financial statements of XYZ Company were compiled by me (us). A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (we) have not audited or reviewed the 19X1 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: SSARS No. 2, paragraph 10 (*AICPA Professional Standards*, AR section 200.10).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.09 Changed Reference to a Departure from Generally Accepted Accounting Principles [1]—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and 19X1, the related statements of income, retained earnings, and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

In my (our) previous review report dated March 1, 19X2, on the 19X1 financial statements, I (we) referred to a departure from generally accepted accounting principles because the company carried its land at appraised values. However, as disclosed in Note X, the company has restated its 19X1 financial statements to reflect its land in accordance with generally accepted accounting principles.

[Sources: SSARS No. 2, paragraph 15 (*AICPA Professional Standards,* AR section 200.15) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

[1] A changed reference to a departure from generally accepted accounting principles includes the removal of a prior reference or the inclusion of a new reference.

.10 Predecessor's Review Report on Prior Period Not Presented—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The 19X1 financial statements of XYZ Company were reviewed by other accountants whose report dated March 1, 19X2, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

[Sources: SSARS No. 2, paragraph 18 (*AICPA Professional Standards,* AR section 200.18) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.11 Predecessor's Compilation Report on Prior Period Not Presented—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The 19X1 financial statements of XYZ Company were compiled by other accountants whose report dated February 1, 19X2, stated that they did not express an opinion or any other form of assurance on those statements.

[Sources: SSARS No. 2, paragraph 19 (*AICPA Professional Standards,* AR section 200.19) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.12 Prior Period Audited—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19X2, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying 19X2 financial statements in order for them to be in conformity with generally accepted accounting principles.

The financial statements for the year ended December 31, 19X1, were examined by me (us) (other accountants) and I (we) (they) expressed an unqualified opinion on them in my (our) (their) report dated March 1, 19X2, but I (we) (they) have not performed any auditing procedures since that date.

[Sources: SSARS No. 2, paragraph 28 (*AICPA Professional Standards,* AR section 200.28) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.13 Prior Period Disclaimed Pursuant to SAS No. 1, Section 516 *—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 1979, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying 1979 financial statements in order for them to be in conformity with generally accepted accounting principles.

The 1978 financial statements of XYZ Company were reported upon by me (us) in accordance with standards then in effect and my (our) report dated March 1, 1979 stated that I (we) had not audited those financial statements and, accordingly, did not express an opinion on them.[2]

[Sources: SSARS No. 2, paragraph 34 (*AICPA Professional Standards,* AR section 200.34) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* SAS No. 1, section 516 is superseded by SAS No. 26 issued in November 1979 (*AICPA Professional Standards,* AU section 504).

[2] As indicated in SSARS No. 2, paragraph 33, the continuing accountant may also reissue his previous report or comply with the compilation or review standards in SSARS No. 1 (or perform an audit) with respect to unaudited financial statements for periods ending before July 1, 1979.

.14 Predecessor's Disclaimer on Prior Period Pursuant to SAS No. 1, Section 516 * Not Presented—Comparative Financial Statements

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 1979, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying 1979 financial statements in order for them to be in conformity with generally accepted accounting principles.

The 1978 financial statements of XYZ Company were reported upon by other accountants in accordance with standards then in effect and their report dated February 1, 1979 stated that they had not audited those financial statements and, accordingly, did not express an opinion on them.

[Sources: SSARS No. 2, paragraph 34 (*AICPA Professional Standards,* AR section 200.34) and SSARS No. 1, paragraph 35 (*AICPA Professional Standards,* AR section 100.35).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

---

* SAS No. 1, section 516 is superseded by SAS No. 26 issued in November 1979 (*AICPA Professional Standards,* AU section 504).

.15 Financial Statements Accompanied by Supplementary Information Subjected to Inquiry and Analytical Procedures

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

My (our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying (identify the supplementary information, for example, schedules of cost of goods sold and selling, general and administrative expenses) is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements and I am (we are) not aware of any material modifications that should be made thereto.

[Source: SSARS No. 1, paragraph 43 (*AICPA Professional Standards*, AR section 100.43).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.16 Financial Statements Accompanied by Supplementary Information Not Subjected to Inquiry and Analytical Procedures

I (we) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

My (our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying (identify the supplementary information, for example, schedules of cost of goods sold and selling, general and administrative expenses) is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, I (we) do not express an opinion or any other form of assurance on the supplementary information.

[Source: SSARS No. 1, paragraph 43 (*AICPA Professional Standards,* AR section 100.43).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

.17 Uncertainty With Note Disclosure—Entity's Continued Existence ("Going Concern")

I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter(s) described in the following paragraph(s), I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note X, certain conditions indicate that the Company may be unable to continue in existence. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.*

[Sources: SSARS No. 1, paragraph 40 and Accounting and Review Services Interpretation No. 11 of SSARS No. 1 (*AICPA Professional Standards,* AR section 100.40 and section 9100.38).]

NOTE:

Statements on Standards for Accounting and Review Services provide guidance to the accountant who performs services in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.

The next page is 10,791.

* Although not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his review report.

AAM Section 10,550

Accountant's Report on Condensed Financial Statements and Selected Financial Data

.01 Unqualified Opinion on Condensed Financial Statements [1]

We have examined, in accordance with generally accepted auditing standards, the consolidated balance sheet of X Company and subsidiaries as of December 31, 19X0, and the related consolidated statements of income, retained earnings, and changes in financial position for the year then ended (not presented herein); and in our report dated February 15, 19X1, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

[Source: SAS No. 42, paragraph 6 (*AICPA Professional Standards,* AU section 552.06).]

[1] This report is appropriate when reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency (See SAS 42, paragraph 1a; AU section 552.01).

.02 Adverse Opinion on Condensed Financial Statements Due to Inadequate Disclosure [2]

We have examined the consolidated balance sheet of X Company and subsidiaries as of December 31, 19X0, and the related consolidated statements of income, retained earnings, and changes in financial position for the year then ended (not presented herein). Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The condensed consolidated balance sheet as of December 31, 19X0, and the related condensed consolidated statements of income, retained earnings, and changes in financial position for the year then ended, presented on pages xx-xx, are presented as a summary and therefore do not include all of the disclosures required by generally accepted accounting principles.

In our opinion, because of the significance of the omission of the information referred to in the preceding paragraph, the condensed consolidated financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of X Company and subsidiaries as of December 31, 19X0, or the results of their operations and changes in their financial position for the year then ended.

[Source: SAS No. 42, paragraph 7, note 6 (*AICPA Professional Standards,* AU section 552.07).]

[2] If a statement naming the auditor and stating that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency at least annually, this report is appropriate (See SAS 42, paragraph 7, note 6; AU section 552.07).

.03 Review Report on Condensed Financial Statements

We have made a review of the condensed consolidated balance sheet of ABC Company and subsidiaries as of March 31, 19X1, and the related condensed consolidated statements of income and changes in financial position for the three-month periods ended March 31, 19X1 and 19X0, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously examined, in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 19X0, and the related consolidated statements of income, retained earnings, and changes in financial position for the year then ended (not presented herein); and in our report dated February 15, 19X1, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 19X0, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

[Source: SAS No. 42, paragraph 8 (*AICPA Professional Standards,* AU section 552.08).]

The next page is 10,851.

AAM Section 10,600

Reports on Personal Financial Statements

.01 Auditor's Standard Report

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. My (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

In my (our) opinion, the financial statements referred to above present fairly the financial condition of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding [*period*].

[Source: AICPA *Personal Financial Statements Guide.*]

.02 Audit Report—Statement of Financial Condition Only

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*]. My (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

In my (our) opinion, the financial statement referred to above presents fairly the financial condition of James and Jane Person as of [*date*], in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding [*period*].

[Source: AICPA *Personal Financial Statements Guide.*]

.03 Audit Report—Departure from GAAP—Inappropriate Valuation Methods—Adverse Opinion

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. My (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

As discussed in Note X to the financial statements, assets amounting to $XX,XXX (XX percent of total assets) as of [*date*] have been valued at estimated current value as determined by James Person. I (we) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion, those procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. The effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets are not reasonably determinable.

In my (our) opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial condition of James and Jane Person as of [*date*], or the changes in their net worth for the [*period*] then ended.

[Source: AICPA *Personal Financial Statements Guide.*]

.04 Audit Report—Departure from GAAP—Inappropriate Valuation Methods—Qualified Opinion

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. My (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

As discussed in Note X to the financial statements, assets amounting to $XX,XXX (XX percent of total assets) as of [*date*] have been valued at estimated current value as determined by James Person. I (we) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion, those procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. The effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets are not reasonably determinable.

In my (our) opinion, except for the effects on the financial statements of the valuation of assets determined by James Person, as described in the preceding paragraph, the financial statements referred to above present fairly the financial condition of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding [*period*].

[Source: AICPA *Personal Financial Statements Guide.*]

.05 Audit Report — Inadequate Records Preclude Opinion

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. Except as explained in the following paragraph, my (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

Because James and Jane Person do not maintain certain accounting records and supporting documentation, and because I was (we were) unable to apply adequate auditing procedures regarding the recording of transactions as noted in preceding paragraph, the scope of my (our) work was not sufficient to enable me (us) to express, and I (we) do not express, an opinion on the financial statements referred to above.

[Source: AICPA *Personal Financial Statements Guide.*]

.06 Audit Report — Scope Limitation — Inadequate Records

I (we) have examined the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. Except as explained in the following paragraph, my (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

In my (our) opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I (we) been able to determine that all assets and liabilities and changes in net worth were recorded in the financial statements, the financial statements referred to above present fairly the financial condition of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding [*period*].

[Source: AICPA *Personal Financial Statements Guide.*]

.07 Audit Report—Income Tax Basis

I (we) have examined the statement of assets and liabilities—income tax basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—income tax basis for the [*period*] then ended. My (our) examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I (we) considered necessary in the circumstances.

As described in Note X to the financial statements, James and Jane Person prepare their financial statements on the accounting basis used for income tax purposes; consequently, certain income and related assets are recognized when received rather than when earned, certain expenses are recognized when paid rather than when the obligation is incurred, and assets and liabilities are presented on the basis of historical cost rather than estimated current values or amounts. Accordingly, the accompanying financial statements are not intended to present financial condition and changes in net worth in conformity with generally accepted accounting principles.

In my (our) opinion, the financial statements referred to above present fairly the assets and liabilities of James and Jane Person as of [*date*], and the changes in their net assets for the [*period*] then ended, on the basis of accounting described in Note X to the financial statements, which basis has been applied in a manner consistent with that of the preceding [*period*].

[Source: AICPA *Personal Financial Statements Guide.*]

.08 Accountant's Standard Compilation Report

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: AICPA *Personal Financial Statements Guide.*]

.09 Compilation Report—Statement of Financial Condition Only

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying statement of financial condition and, accordingly, do not express an opinion or any other form of assurance on it.

[Source: AICPA *Personal Financial Statements Guide.*]

.10 Compilation Report—Omission of Substantially All Disclosures

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.*

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

James and Jane Person have elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial condition of James and Jane Person and changes in their net worth. Accordingly, these financial statements are not designed for those who are not informed about such matters.

[Source: AICPA *Personal Financial Statements Guide*.]

---

*Note: When personal financial statements omit substantially all disclosures and do not disclose that the assets are presented at their estimated current values and that the liabilities are presented at their estimated current amounts, the accountant should include the following sentence at the end of the first paragraph of his report:

> The financial statements are intended to present the assets of James and Jane Person at estimated current values and their liabilities at estimated current amounts.

.11 Compilation Report—GAAP Departure—Material Assets at Cost

I (we) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a departure from generally accepted accounting principles that is described in the following paragraph.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that assets be presented at their estimated current values and that liabilities be presented at their estimated current amounts. James and Jane Person have informed me (us) that their investment in ABC Company is stated in the accompanying financial statements at cost and that the effects of this departure from generally accepted accounting principles on their financial condition and the changes in their net worth have not been determined.

[Source: AICPA *Personal Financial Statements Guide.*]

.12 Compilation Report—Income Tax Basis

I (we) have compiled the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—income tax basis for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

[Source: AICPA *Personal Financial Statements Guide.*]

.13 Compilation Report—Financial Statements Included in a Prescribed Form

I (we) have compiled the [*identification of financial statements, including period covered and name of individual(s)*] included in the accompanying prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.

My (our) compilation was limited to presenting in the form prescribed by [*name of body*] information that is the representation of the individuals whose financial statements are presented. I (we) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements (including related disclosures) are presented in accordance with the requirements of [*name of body*], which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

[Source: AICPA *Personal Financial Statements Guide.*]

.14 Accountant's Standard Review Report

I (we) have reviewed the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

[Source: AICPA *Personal Financial Statements Guide.*]

.15 Review Report—Statement of Financial Condition Only

I (we) have reviewed the accompanying statement of financial condition of James and Jane Person as of [*date*], in accordance with standards established by the American Institute of Certified Public Accountants. All information included in this financial statement is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying statement of financial condition in order for it to be in conformity with generally accepted accounting principles.

[Source: AICPA *Personal Financial Statements Guide.*]

.16 Review Report—GAAP Departure—Failure to Include a Provision for Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases

I (we) have reviewed the accompanying statement of financial condition of James Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James Person.

A review of personal financial statements consists principally of inquiries of the individual whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Generally accepted accounting principles require that personal financial statements include a provision for estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. The accompanying financial statements do not include such a provision and the effect of this departure from generally accepted accounting principles has not been determined.

[Source: AICPA *Personal Financial Statements Guide.*]

.17 Review Report—Income Tax Basis

I (we) have reviewed the accompanying statement of assets and liabilities—historical cost basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—historical cost basis for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the historical cost basis of accounting described in Note X.

[Source: AICPA *Personal Financial Statements Guide.*]

AAM Section 11,000

FINANCIAL STATEMENTS

These sections include illustrative financial statement formats and a limited number of illustrative notes for hypothetical and uncomplicated nonpublic entities. Thus, the illustrations do not include examples of disclosures of earnings per share and segment information required for public entities.

Various formats of financial statement presentations are in use. Inclusion of only certain formats in these sections in no way means they are preferable. In addition, these illustrative formats and notes may become of limited use once any complexity is encountered in a particular entity's transactions. This manual is a nonauthoritative kit of practice aids. Users of this manual are urged to refer directly to authoritative pronouncements when appropriate.

Users of this manual should consider other sources of illustrative financial presentations, such as those in authoritative pronouncements, AICPA industry audit guides, Accounting Trends & Techniques, *library collections of published financial reports, and the AICPA National Automated Accounting Research System (NAARS). Users should also consider the financial statement disclosure checklists included elsewhere in this manual.*

TABLE OF CONTENTS

Section		*Paragraph*
11,100	General Comment on Illustrative Financial Statements	.01-.03
11,200	Illustrative Presentations of Financial Position	.01-.06
	Comment	.01-.04
	Illustrative Balance Sheet—Sample A	.05
	Illustrative Balance Sheet—Sample B	.06

Section		Paragraph
11,300	Illustrative Presentations of the Results of Operations	.01-.06
	Comment	.01-.03
	Illustrative Statement of Income and Retained Earnings	.04
	Illustrative Income Statement—Sample A	.05
	Illustrative Income Statement—Sample B	.06
11,400	Illustrative Presentations of Ownership Equity	.01-.02
	Illustrative Statement of Stockholders' Equity	.01
	Illustrative Statement of Retained Earnings and Additional Paid-In Capital	.02
11,500	Illustrative Presentations of Changes in Financial Position	.01-.02
	Illustrative Statement of Changes in Financial Position (Presents Changes in Working Capital)	.01
	Illustrative Statement of Changes in Financial Position (Presents Changes in Cash and Temporary Cash Investments)	.02
11,600	Illustrative Notes to Financial Statements	.01-.09
	Comment on Disclosure of Significant Accounting Policies	.01
	Comment on Other Notes to Financial Statements	.02
	Illustrative Notes to Financial Statements	.03-.17
	Illustrative Note: Summary of Significant Accounting Policies	.03
	Illustrative Note: Restricted Cash	.04
	Illustrative Note: Marketable Equity Securities	.05
	Illustrative Note: Imputation of Interest on Note Receivable	.06
	Illustrative Note: Inventories	.07
	Illustrative Note: Property and Equipment	.08
	Illustrative Note: Short-term Obligations Expected to be Refinanced	.09
	Illustrative Note: Long-term Debt	.10
	Illustrative Note: Income Taxes	.11
	Illustrative Note: Pension Plan	.12
	Illustrative Note: Interest Costs	.13
	Illustrative Note: Related Party Transactions	.14
	Illustrative Note: Major Supplier	.15
	Illustrative Note: Subsequent Events	.16
	Illustrative Note: Unusual Item	.17
	Comments on Notes Concerning Commitments and Contingent Liabilities	.18

Section		Paragraph
11,700	Illustrative Financial Statements—Other Comprehensive Bases of Accounting	
	General Comment	.01-.04
	Unmodified Cash Basis	.05-.06
	Statements of Cash Receipts and Disbursements	.05
	Notes to Statements of Cash Receipts and Disbursements	.06
	Modified Cash Basis (a Corporation)	.07-.09
	Statements of Assets and Liabilities Arising from Cash Transactions—Modified Cash Basis	.07
	Statements of Revenues Collected and Expenses and Retained Earnings—Modified Cash Basis	.08
	Notes to Financial Statements—Modified Cash Basis	.09
	Modified Cash Basis (a Partnership)	.10-.13
	Statements of Assets and Liabilities—Modified Cash Basis	.10
	Statements of Changes in Partners' Capital—Modified Cash Basis	.11
	Statements of Revenues Collected and Expenses—Modified Cash Basis	.12
	Notes to Financial Statements—Modified Cash Basis	.13
	Modified Cash Basis (a Professional Corporation)	.14-.16
	Statements of Assets and Liabilities—Modified Cash Basis	.14
	Statements of Revenues Collected and Expenses and Retained Earnings—Modified Cash Basis	.15
	Notes to Financial Statements—Modified Cash Basis	.16
	Modified Cash Basis (a Subchapter S Corporation)	.17-.19
	Statements of Assets and Liabilities—Modified Cash Basis	.17
	Statements of Revenues Collected and Expenses, and Retained Earnings—Modified Cash Basis	.18
	Notes to Financial Statements—Modified Cash Basis	.19
	Income Tax Basis Accrual Method	.20-.23
	Statements of Assets, Liabilities, and Stockholders' Equity—Income Tax Basis Accrual Method	.20
	Statements of Income—Income Tax Basis Accrual Method	.21
	Statements of Retained Earnings—Income Tax Basis Accrual Method	.22
	Notes to Financial Statements—Income Tax Basis Accrual Method	.23

The next page is 11,101.

AAM Section 11,100

General Comment on Illustrative Financial Statements

.01 Illustrative financial statement formats are often helpful in developing a consistent style of presentation within a firm. However, the circumstances of engagements vary widely, and no set of illustrative financial statements can cover all situations likely to be encountered in practice, particularly when the client is engaged in a specialized industry. Accordingly, users should refer to the firm's own report files, illustrations in authoritative pronouncements, and other sources such as AICPA industry audit guides and *Accounting Trends & Techniques,* library collections of published financial reports and the AICPA National Automated Accounting Research System (NAARS).

.02 These illustrative financial statements do not include disclosures about related party transactions; users are cautioned to be aware of the requirements of FASB Statement No. 57 (AC section R36).[1]

.03 In practice, the classifications in the financial statements often include references to specific notes. However, because of the variations encountered in practice, this is not done in these illustrative financial statements except for the illustrative statement of retained earnings and additional paid-in capital (AAM section 11,400.02).

The next page is 11,201.

[1] *FASB Accounting Standards Current Text* (New York, FASB).

AAM Section 11,200

Illustrative Presentations of Financial Position

Comment

.01 The companies surveyed in *Accounting Trends & Techniques*[1] generally use the title "balance sheet" for their statements of assets, liabilities, and stockholders' equity. Other titles used by those companies are "statement of financial position" and "statement of financial condition."

.02 Some entities include in their balance sheets a caption without an amount for commitments and contingent liabilities [see FASB Statement No. 5 (AC section C59)[2] and interpretations thereof for guidance on accrual and disclosure] with a reference to the applicable note(s).

.03 The illustrative balance sheets include different formats for certain captions to show a few of the various formats used in practice. For example, the inventories caption in the illustrative balance sheet—sample A (paragraph .05) includes subclassifications and amounts for raw materials, work in process, and finished goods. In the illustrative balance sheet—sample B (paragraph .06), the inventories presentation includes only total amounts; amounts for subclassifications would appear in a note to the financial statements. Presentations of property and equipment in the two illustrations demonstrate different approaches of a similar nature.

.04 The illustrative statements of financial position and illustrative notes do not include lease transactions because of the complexity of the accounting and disclosure requirements. Users are referred to FASB Statement No. 13 (AC section L10), which includes examples of disclosures, and to the subsequent amendments and interpretations of that pronouncement.

---

[1] *Accounting Trends & Techniques* (New York, AICPA), 1978.
[2] *FASB Accounting Standards Current Text* (New York, FASB), 1982.

.05 Illustrative Balance Sheet—Sample A

A Private Company and Subsidiaries
Consolidated Balance Sheet
December 19X1 and 19X0

Assets	19X1	19X0
Current Assets:		
Cash (including time deposits of $xx,xxx in 19X1 and $xx,xxx in 19X0)	$xx,xxx	$xx,xxx
U. S. Treasury Bills, at cost, which approximates market	xx,xxx	xx,xxx
Accounts and notes receivable—		
Trade	xx,xxx	xx,xxx
Notes receivable from officer	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less allowance for doubtful accounts	(xx,xxx)	(xx,xxx)
	xx,xxx	xx,xxx
Inventories, at the lower of cost (first-in, first-out) or market—		
Raw materials	xx,xxx	xx,xxx
Work in process	xx,xxx	xx,xxx
Finished goods	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Prepaid expenses	xx,xxx	xx,xxx
Total current assets	xx,xxx	xx,xxx
Property and Equipment, at cost:		
Land	xx,xxx	xx,xxx
Buildings	xx,xxx	xx,xxx
Furniture and equipment	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less accumulated depreciation and amortization	(xx,xxx)	(xx,xxx)
Net property and equipment	xx,xxx	xx,xxx
Intangibles and Other Assets:		
Excess of cost over carrying value of net assets acquired, less accumulated amortization of $xx,xxx in 19X1 and $xx,xxx in 19X0	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Net intangibles and other assets	xx,xxx	xx,xxx
Total Assets	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet—Continued

Liabilities	19X1	19X0
Current Liabilities:		
Notes payable to bank	$xx,xxx	$xx,xxx
Accounts payable	xx,xxx	xx,xxx
Accrued expenses	xx,xxx	xx,xxx
Federal and state income taxes payable	xx,xxx	xx,xxx
Current portion of long-term debt	xx,xxx	xx,xxx
Total current liabilities	xx,xxx	xx,xxx
Long-Term Debt, less current portion included above	xx,xxx	xx,xxx
Deferred income taxes	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Stockholders' Equity:		
Common stock, $100 par value; 3,000 shares authorized Issued and outstanding — 2,000 shares in 19X1, 1900 shares in 19X0	xx,xxx	xx,xxx
Additional paid-in capital	xx,xxx	xx,xxx
Retained earnings	xx,xxx	xx,xxx
Total stockholders' equity	xx,xxx	xx,xxx
Total Liabilities and Stockholders' Equity	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

.06 Illustrative Balance Sheet—Sample B

A Private Company and Subsidiaries
Consolidated Balance Sheet
December 31, 19X1 and 19X0

Assets	19X1	19X0
Current Assets:		
Cash	$xx,xxx	$xx,xxx
Marketable securities, at cost (quoted market price—$xx,xxx in 19X1 and $xx,xxx in 19X0)	xx,xxx	xx,xxx
Accounts receivable, less allowance for doubtful accounts of $xx,xxx in 19X1 and $xx,xxx in 19X0	xx,xxx	xx,xxx
Inventories, at the lower of cost (FIFO) or market	xx,xxx	xx,xxx
Prepaid expenses	xx,xxx	xx,xxx
Total current assets	xx,xxx	xx,xxx
Property and equipment, at cost, less accumulated depreciation of $xx,xxx in 19X1 and $xx,xxx in 19X0	xx,xxx	xx,xxx
Goodwill, at cost, less accumulated amortization of $xx,xxx in 19X1 and $xx,xxx in 19X0	xx,xxx	xx,xxx
Total assets	$xx,xxx	$xx,xxx
Liabilities		
Current Liabilities:		
Notes payable to banks	xx,xxx	xx,xxx
Current maturities of long-term debt	xx,xxx	xx,xxx
Accounts payable	xx,xxx	xx,xxx
Accrued payroll, interest and other expenses	xx,xxx	xx,xxx
Federal and state income taxes payable	xx,xxx	xx,xxx
Total current liabilities	xx,xxx	xx,xxx
Long-term debt, less current maturities included above	xx,xxx	xx,xxx
Total liabilities	xx,xxx	xx,xxx
Stockholders' Equity *		
Common stock	xx,xxx	xx,xxx
Additional paid-in capital	xx,xxx	xx,xxx
Retained earnings	xx,xxx	xx,xxx
Total stockholders' equity	xx,xxx	xx,xxx
Total liabilities and stockholders' equity	$xx,xxx	$xx,xxx

See notes to consolidated financial statements.

The next page is 11,301.

* Stockholders' equity and its components should include reference to notes which present appropriate additional disclosures such as number of shares authorized, issued and outstanding.

AAM Section 11,300

Illustrative Presentations of the Results of Operations

Comment

.01 The illustrative formats are for relatively uncomplicated commercial entities. The nature of an entity's business and industry will affect the format and classifications. Like the illustrative statements of financial position, the illustrative income statements include different formats and classifications to demonstrate some of the many possible variations.

.02 Some nonpublic entities may use supplementary schedules of the elements comprising such classifications as cost of sales, selling, shipping and administrative expenses. The format and design of these supplementary schedules will vary with the needs of the client.

.03 The companies surveyed for *Accounting Trends & Techniques* generally use the term "income" in the title of their presentations of the results of operations. Other terms used by those companies are "earnings" and "operations."

.04 Illustrative Statement of Income and Retained Earnings

A Private Company and Subsidiaries
Consolidated Statement of Income and Retained Earnings
For the Years Ended December 31, 19X1 and 19X0

	19X1	19X0
Net sales	$xx,xxx	$xx,xxx
Cost of sales	xx,xxx	xx,xxx
Gross profit	xx,xxx	xx,xxx
Selling, general and administrative expenses	xx,xxx	xx,xxx
Income from operations	xx,xxx	xx,xxx
Other income:		
Interest income	xx,xxx	xx,xxx
Interest expense	(xx,xxx)	(xx,xxx)
Miscellaneous	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Income before income taxes	xx,xxx	xx,xxx
Provision for federal and state income taxes:		
Current	xx,xxx	xx,xxx
Deferred	xx,xxx	xx,xxx
Net income	xx,xxx	xx,xxx
Retained earnings, beginning of year	xx,xxx	xx,xxx
Retained earnings, end of year	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

.05 Illustrative Income Statement—Sample A

A Private Company and Subsidiaries
Consolidated Statement of Operations
For the Years Ended December 31, 19X1 and 19X0

	19X1	19X0
Revenue:		
Sales	$xx,xxx	$xx,xxx
Returns and allowances	xx,xxx	xx,xxx
Net sales	xx,xxx	xx,xxx
Costs and expenses:		
Cost of goods sold, exclusive of depreciation	xx,xxx	xx,xxx
Depreciation and amortization	xx,xxx	xx,xxx
Selling, general and administrative	xx,xxx	xx,xxx
Research, development and engineering	xx,xxx	xx,xxx
Interest on debt	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Other income	xx,xxx	xx,xxx
Settlement of lawsuit in 19X1 *	xx,xxx	—
Income before income taxes	xx,xxx	xx,xxx
Provision for income taxes:		
Current	xx,xxx	xx,xxx
Deferred	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Net income	$xx,xxx	$xx,xxx

See notes to consolidated financial statements.

* Included above as an example of an unusual expense.

.06 Illustrative Income Statement—Sample B

A Private Company and Subsidiaries
Consolidated Statement of Operations
For the Years Ended December 31, 19X1 and 19X0

	19X1	19X0
Net sales	$xx,xxx	$xx,xxx
Cost of goods sold	xx,xxx	xx,xxx
Gross profit	xx,xxx	xx,xxx
Selling, general and administrative expenses	xx,xxx	xx,xxx
Research, development and engineering expenses	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Income from operations	xx,xxx	xx,xxx
Other income (expense):		
Dividend income	xx,xxx	xx,xxx
Interest income	xx,xxx	xx,xxx
Interest expense	(xx,xxx)	(xx,xxx)
Other	xx,xxx	xx,xxx
	(xx,xxx)	(xx,xxx)
Income before income taxes	xx,xxx	xx,xxx
Provision for incomes taxes:		
Current	xx,xxx	xx,xxx
Deferred	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Net income	$xx,xxx	$xx,xxx

See notes to consolidated financial statements.

The next page is 11,401.

AAM Section 11,400

Illustrative Presentations of Ownership Equity

.01 Illustrative Statement of Stockholders' Equity

A Private Company and Subsidiaries
Consolidated Statement of Stockholders' Equity
For the Years Ended December 31, 19X2 and 19X1

	Common stock			
	Number of share	Amount	Additional paid-in capital	Retained earnings
Balance, December 31, 19X0	xxx	$x,xxx	$ xx,xxx	$ xx,xxx
Net income for the year				xx,xxx
Cash dividends, $xx per share				(xx,xxx)
Balance, December 31, 19X1	xxx	x,xxx	xx,xxx	xx,xxx
Net income for the year				xx,xxx
Sale of xx shares of common stock	xx	xxx	x,xxx	
Cash dividends, $xx per share				(xx,xxx)
Balance, December 31, 19X2	xxx	$x,xxx	$ xx,xxx	$ xx,xxx

See notes to the consolidated financial statements

.02 Illustrative Statement of Retained Earnings and Additional Paid-In Capital

A Private Company and Subsidiaries
Consolidated Statement of Retained Earnings
and Additional Paid-In Capital
For the Years Ended December 31, 19X1 and 19X0

Retained Earnings	19X1	19X0
Balance, beginning of year	$ xx,xxx	$ xx,xxx
Net income	xx,xxx	xx,xxx
Dividends declared on common stock, $xx and $xx per share in 19X1 and 19X0, respectively	(xx,xxx)	(xx,xxx)
Balance, end of year	$ xx,xxx	$ xx,xxx
Additional Paid-In Capital (Note......)[1]		
Balance, beginning of year	$ xx,xxx	$ xx,xxx
Excess of proceeds from the sale of xx shares of common stock over the par value thereof	xx,xxx	
Balance, end of year	$ xx,xxx	$ xx,xxx

The accompanying notes are an integral part of
the consolidated financial statements.

The next page is 11,501.

[1] Comment: Additional paid-in capital includes reference to a note which would present a summary of the changes in the common shares issued and outstanding.

AAM Section 11,500

Illustrative Presentations of Changes in Financial Position

.01 Illustrative Statement of Changes in Financial Position (Presents Changes in Working Capital)

A Private Company and Subsidiaries
Consolidated Statement of Changes in Financial Position
For the Years Ended December 31, 19X1 and 19X0

	19X1	19X0
Funds Provided:		
Net income	$ xx,xxx	$ xx,xxx
Items included in net income not affecting working capital:		
Depreciation and amortization	xx,xxx	xx,xxx
Deferred income taxes	xx,xxx	xx,xxx
Funds provided by operations	xx,xxx	xx,xxx
Additional borrowings	xx,xxx	—
Proceeds from sale of common stock	xx,xxx	—
Disposition of property and equipment	xx,xxx	xx,xxx
Total funds provided	xx,xxx	xx,xxx
Funds Applied:		
Additions to property and equipment	xx,xxx	xx,xxx
Reduction of long-term debt	xx,xxx	xx,xxx
Cash dividends	xx,xxx	xx,xxx
Total funds applied	xx,xxx	xx,xxx
Increase (decrease) in working capital	$ xx,xxx	($ xx,xxx)
Changes in Working Capital		
Increase (decrease) in current assets—		
Cash	$ xx,xxx	($ xx,xxx)
Marketable securities	xx,xxx	(xx,xxx)
Accounts and notes receivable	xx,xxx	xx,xxx
Inventories	xx,xxx	(xx,xxx)
Prepaid expenses	(xx,xxx)	xx,xxx
	xx,xxx	(xx,xxx)
Increase (decrease) in current liabilities—		
Notes payable	(xx,xxx)	xx,xxx
Accounts payable	xx,xxx	xx,xxx
Accrued expenses	xx,xxx	xx,xxx
Federal and state income taxes payable	xx,xxx	xx,xxx
Current portion of long-term debt	xx,xxx	(xx,xxx)
	xx,xxx	xx,xxx
Increase (decrease) in working capital	$ xx,xxx	($ xx,xxx)

The accompanying notes are an integral part of these financial statements.

.02 Illustrative Statement of Changes in Financial Position (Presents Changes in Cash and Temporary Cash Investments)

A Private Company and Subsidiaries
Consolidated Statement of Changes in Financial Position
For the Years Ended October 31, 19X1 and 19X0

	19X1	19X0
Funds Provided:		
Net income	$ xx,xxx	$ xx,xxx
Charges to income not requiring outlay of funds:		
Depreciation and amortization	xx,xxx	xx,xxx
Deferred income taxes	xx,xxx	xx,xxx
Funds provided by operations	xx,xxx	xx,xxx
Increase in deferred revenue	xx,xxx	xx,xxx
Disposal of property and equipment	xx,xxx	—
Additional long-term debt	xx,xxx	—
Proceeds from sale of capital stock	xx,xxx	xx,xxx
Increase in:		
Notes payable to bank	—	xx,xxx
Accounts payable	xx,xxx	xx,xxx
Federal and state income taxes payable	xx,xxx	xx,xxx
Current portion of long-term debt	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Funds Applied:		
Cash dividends	xx,xxx	xx,xxx
Acquisition of XYZ & Sons, Inc.	—	xx,xxx
Additions to property and equipment	xx,xxx	xx,xxx
Decrease in long-term debt	—	xx,xxx
Acquisition of treasury stock	—	xx,xxx
Decrease in notes payable to bank	xx,xxx	—
Increase in:		
Accounts receivable	xx,xxx	xx,xxx
Inventories	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Increase (decrease) in cash and temporary cash investments	$ xx,xxx	($ xx,xxx)

The accompanying notes are an integral part of the financial statements.

The next page is 11,601.

AAM Section 11,600

Illustrative Notes to Financial Statements

Comment on Disclosure of Significant Accounting Policies

.01 The summary of significant accounting policies typically includes disclosure about matters such as principles of consolidation, inventory pricing, property and depreciation policies, amortization policies, interperiod tax allocation, employee benefits, and changes in accounting policies, if any. The summary should not duplicate details disclosed elsewhere as part of the financial statements. The example included illustrates some disclosures for a hypothetical, noncomplex private company.

Comment on Other Notes to Financial Statements

.02 The information contained in notes varies widely depending on the company's circumstances and on the extent of information presented on the face of the financial statements and in the summary of significant accounting policies. The few sample notes that follow illustrate some simple situations. Readers are urged to consult appropriate authoritative pronouncements, AICPA industry audit guides, *Accounting Trends & Techniques*, financial statements issued by companies in the same industry, and the financial statement disclosure checklist in this manual (AAM section 8000) in drafting notes.

ILLUSTRATIVE NOTES TO FINANCIAL STATEMENTS

.03 Illustrative Note: Summary of Significant Accounting Policies

Note . . . Summary of Significant Accounting Policies:

- Principles of Consolidation

  The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, after elimination of all significant intercompany balances and transactions.

- Inventories

  Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market, and include material, labor, and factory overhead.

- Property and Depreciation

  Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

- Income Taxes

  Deferred income taxes are provided on timing differences between financial statement and income tax reporting, principally from the use of accelerated methods of depreciation for income tax purposes. Investment tax credits ($xxx in 19X1 and $xxx in 19X0) are recorded as a reduction of the provision for income taxes.

- Employee Benefits

  The Company and its wholly-owned subsidiary have pension plans covering substantially all employees. Pension plan expense is determined based on the actuarial cost (entry age normal method) of current service and amortization of prior service costs over a thirty-year period. The Company's policy is to fund pension cost accrued.

- Intangible Assets

  The excess of cost over carrying value of net assets acquired is being amortized on a straight-line basis over a forty-year period.

.04 Illustrative Note: Restricted Cash

Note . . . Restricted Cash:

At December 31, 19X1, cash of $xx,xxx was restricted as to use. That amount represents unexpended proceeds from industrial revenue obligations, which may be used only for the purchase of additional equipment.

.05 Illustrative Note: Marketable Equity Securities

Note . . . Marketable Equity Securities:

Gross unrealized gains and losses on non-current marketable securities were as follows:

	19X1	19X0
Gross unrealized gains	$xx,xxx	$xx,xxx
Gross unrealized losses	$xx,xxx	$xx,xxx

Net realized gains of $xx,xxx in 19X1 and, $xx,xxx in 19X0 realized on the sale of marketable equity securities are included in the determination of net income. The cost of the securities sold was determined on the specific identification basis. Subsequent to December 31, 19X1, the company had realized gains of $xx,xxx before income taxes on the sale of marketable equity securities. The valuation allowance charged against stockholders' equity increased $xx,xxx during 19X1 and decreased $xx,xxx during 19X0.

.06 Illustrative Note: Imputation of Interest on Note Receivable

Note . . . Note Receivable:

The Company's note receivable is described below.

	19X1	19X0
x% note, $xx,xxx due monthly through June 30, 19X8	$xx,xxx	$xx,xxx
Less unamortized discount based on imputed interest of x%	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less current portion	xx,xxx	xx,xxx
Note receivable long-term	$xx,xxx	$xx,xxx

.07 Illustrative Note: Inventories

Note . . . Inventories:

Inventories at December 31, 19X1 and 19X0 consist of the following:

	19X1	19X0
Raw materials	$xx,xxx	$xx,xxx
Work in process	xx,xxx	xx,xxx
Finished goods	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx

.08 Illustrative Note: Property and Equipment

Note . . . Property and Equipment:

Major classifications of property and equipment and their respective depreciable lives are summarized below:

	December 31		Depreciable
	19X1	19X0	Lives
Land	$xx,xxx	$xx,xxx	
Building	xx,xxx	xx,xxx	25 years
Furniture and equipment......	xx,xxx	xx,xxx	5-10 years
	$xx,xxx	$xx,xxx	
Accumulated depreciation	xx,xxx	xx,xxx	
	$xx,xxx	$xx,xxx	

Depreciation expense aggregated $xx,xxx in 19X1 and $xx,xxx in 19X0.

.09 Illustrative Note: Short-term Obligations Expected to be Refinanced

Note . . . Short-term Obligations Expected to be Refinanced:

At December 31, 19X1, $xx,xxx of short-term obligations have been classified as long-term debt since the company as of January 31, 19X2 has converted these obligations into notes under a revolving credit agreement with the bank. The notes bear interest at xx% over prime rate. The amount which can be borrowed under the agreement is subject to reduction in the event of certain other borrowings.

.10 Illustrative Note: Long-term Debt

Note . . . Long-term Debt:

Long-term debt at December 31, 19X1 and 19X0 consists of the following:

	19X1	19X0
9% mortgage note payable in monthly installments of $x,xxx (including principal and interest) to April 1, 19X9, collateralized by land and building..........	$xx,xxx	$xx,xxx

	19X1	19X0
13% unsecured loan under credit agreement due in annual installments of $xx,xxx plus interest on the unpaid balance to October 31, 19X5	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less current portion	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx

The provisions of the unsecured credit agreement require the prior written consent of the creditor for additional borrowings, sale of property and acquisitions of the Company's stock, and limit the payment of cash dividends. At December 31, 19X1, retained earnings of approximately $xx,xxx were available for the payment of dividends and other purposes under the agreement. Long-term debt maturing in the next five years consists of:

19X2	$xx,xxx
19X3	xx,xxx
19X4	xx,xxx
19X5	xx,xxx
19X6	xx,xxx
Total	$xx,xxx

.11 Illustrative Note: Income Taxes

Note . . . Income Taxes:

Income tax expense for the years ended December 31, 19X1 and 19X0 consists of the following:

	19X1	19X0
Taxes currently payable:		
Federal	$xx,xxx	$xx,xxx
State	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less investment tax credits	(xx,xxx)	(xx,xxx)
	xx,xxx	xx,xxx

	19X1	19X0
Deferred taxes:		
Federal	xx,xxx	xx,xxx
State	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx

Deferred income taxes on the balance sheet will be reflected as a reduction of income tax expense in later years as timing differences reverse.

Income tax expense of each year varies from the amount that would be obtained by applying statutory income tax rates to income before income taxes because income for financial statement purposes includes interest on municipal obligations not subject to Federal income taxes.

.12 Illustrative Note: Pension Plan

Note . . . Pension Plan:

The Company has a pension plan covering substantially all of its employees. The total pension expense for 19X1 and 19X0 was $xx,xxx and $xx,xxx respectively, which includes amortization of past service costs over xx years. The Company makes annual contributions to the plan equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for the plan follow:

	December 31	
	19X1	19X0
Acturial present value of accumulated plan benefits:		
Vested:	$xx,xxx	$xx,xxx
Nonvested:	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx
Net assets available for plan benefits	$xx,xxx	$xx,xxx

The assumed rate of return was x percent for both 19X1 and 19X0.

.13 Illustrative Note: Interest Costs

Note . . . Interest Costs:

The Company capitalizes interest costs related to the construction of building and equipment for its own use.

A summary of costs is shown below:

	19X1	19X0
Total interest costs incurred	$xx,xxx	$xx,xxx
Interest capitalized	(xx,xxx)	(xx,xxx)
Interest charged to expense	$xx,xxx	$xx,xxx

.14 Illustrative Note: Related Party Transactions

Note . . . Related Party Transactions:

Mr. A, a director and officer of the company, is a partner in the law firm of A & B. The statements of income for 19X1 and 19X0 include $xx,xxx and $xx,xxx, respectively, for legal services rendered by A & B. Accounts payable at December 31, 19X1 include $xx,xxx payable to A & B, which will be paid in the normal course of business.

.15 Illustrative Note: Major Supplier

Note . . . Major Supplier:

A material amount of the Company's raw materials inventory is acquired from a few suppliers, the loss of any one of which may have an adverse effect on the Company. If the Company were forced to change suppliers, it would incur substantial transportation costs for raw materials which would be difficult to pass along to customers.

For the year ended December 31, 19X1, one supplier accounted for $xx,xxx of raw materials purchased; for the year ended 19X0, one supplier accounted for $xx,xxx of raw materials purchased. Although there are no formal long-term supply agreements with these suppliers, the Company has done business with them for a minimum of five years.

.16 Illustrative Note: Subsequent Events

Note . . . Subsequent Events:

On January 20, 19X2 the Company executed a $xx,xxx unsecured loan agreement with the Bank. The loan is due in 19X8. Interest is payable monthly at a rate of x% above the Bank's prime rate. The Company is required to maintain a minimum working capital of $xx,xxx to be in compliance with the loan agreement.

.17 Illustrative Note: Unusual Item

Note . . . Unusual Item:

The Company's main warehouse was destroyed by fire on September 3, 19X1. The gain, recorded as a separate item in the income statement, represents the difference between the insurance proceeds received and the depreciated cost of the assets.

.18 Comments on Notes Concerning Commitments and Contingent Liabilities

Financial statements for privately held companies frequently include notes on leases and other commitments and contingencies. No lease note is included above because of the complexity of the accounting and disclosure requirements. Members are referred to FASB Statement No. 13 (AC section L10) which includes examples of disclosures and subsequent amendments and interpretations of that pronouncement. No notes are included above for other commitments and contingencies because circumstances vary widely.

The next page is 11,701.

AAM Section 11,700

Illustrative Financial Statements—Other Comprehensive Bases of Accounting

General Comment

.01 This section includes illustrative financial statement formats and notes on disclosure of accounting policies for entities whose financial statements are prepared on a comprehensive basis of accounting other than generally accepted accounting principles. Additional notes to financial statements that might be appropriate would be comparable to those required under generally accepted accounting principles. Some of those notes are illustrated in AAM section 11,600. In practice, some accountants include the statement of changes in financial position (statement of changes in assets and liabilities—modified cash basis, or some other appropriate title) among financial statements prepared on comprehensive bases of accounting other than generally accepted accounting principles. A statement of changes in financial position may be useful to the user of financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles. Recommendation of this statement should be determined by the practitioner based on the specific facts and circumstances of each case. Such statements of changes in financial position would be comparable to the illustrations at AAM section 11,500 and accordingly are not presented in this section. The illustrative formats for statements prepared on the modified cash basis are for entities that do not have inventories. When entities have inventories, they generally use the accrual method of accounting for the inventories and related purchases and sales.

.02 Statement on Auditing Standards No. 14 (AU section 621), *Special Reports,* addresses the following matters concerning financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles:

- Descriptions of each basis that constitutes a comprehensive basis of accounting other than generally accepted accounting principles. [SAS No. 14, par. 4 (AU section 621.04)]

- Suitable titles for financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles. [SAS No. 14, par. 7 (AU section 621.07)]
- Reporting by auditors on financial statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. [SAS No. 14, par. 5 (AU section 621.05)]

.03 Adequacy of disclosure in financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles is addressed in Interpretation Number 8 of SAS No. 14 (AU section 9621.34—.39) issued in February, 1980 by the AICPA Auditing Standards Division. The Interpretation states that the auditor should evaluate whether informative disclosures in such financial statements are appropriate:

> The criteria the auditor should apply are essentially the same as those applicable to financial statements prepared in conformity with generally accepted accounting principles. These criteria are discussed in AU section 411.04 [SAS No. 5, paragraph 4], *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report.* The auditor's opinion should be based on his judgment regarding whether the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation.
>
> Whenever an auditor reports on financial statements prepared on an other comprehensive basis of accounting, a note to the financial statements that states the basis of presentation and a description of how the basis of presentation differs from generally accepted accounting principles is required by AU section 621.05 [SAS No. 14, paragraph 5].
>
> In addition, when the financial statements contain items that are the same as, or similar to, those in financial statements prepared in conformity with generally accepted accounting principles, the same degree of informative disclosures is generally appropriate. For example, financial statements prepared on an income tax basis or a modified cash basis of accounting usually reflect depreciation, long-term debt and owners' equity. Thus, the informative disclosures for depreciation, long-term debt and owners' equity in such financial statements should be comparable to those in financial statements prepared in conformity with generally accepted accounting principles.
>
> To comply with the third standard of reporting, the auditor should also consider other matters that could reasonably be

> expected to materially affect the understanding of the financial statements, independent of the basis of accounting used, such as (a) contingencies and uncertainties, (b) changes in accounting principles or estimates, (c) related party transactions, (d) restrictions on assets and owners' equity, and (e) subsequent events.

In practice, the classifications in the financial statements often include references to specific notes. However, because of the variations encountered in practice, these illustrative financial statement formats do not include specific cross-references to notes to financial statements.

.04 The description of the cash receipts and disbursements basis in SAS No. 14, paragraph 4c (AU section 621.04), includes the phrase:

> . . . modifications of the cash basis having substantial support, such as recording depreciation on fixed assets or accruing income taxes.

That phrase leads to the question of which modifications have substantial support. The reply cannot be a simple reference to an authoritative source because the cash basis of accounting and modifications of the cash basis are not formalized in accounting literature as is the accrual basis of accounting. Modifications have evolved through common usage and practice. Ordinarily a modification would have "substantial support" if the method is equivalent to the accrual basis of accounting for the particular item and if the method is not illogical (such as, recording revenue on the accrual basis and recording purchases and other costs on the cash basis). If modifications to the cash basis of accounting do not have substantial support, the accountant should include in his report an explanatory paragraph and modify the recommended language of the applicable standard report.

If the modifications are so extensive that the modified "cash-basis" statements are, in the accountant's judgment, tantamount to financial statements on the accrual basis, the statements should be considered accrual basis. The accountant should use the applicable standard form of report, modified as appropriate because of departures from generally accepted accounting principles.[1] For example, financial statements that are presented in conformity with generally accepted accounting principles, except that material leases are not capitalized (FASB Statement No. 13 [AC section L10]), are not considered "modified cash-basis" financial statements.

[1] SAS No. 2, paragraphs 15 through 17 (AU section 509.15—.17) and SSARS No. 1, paragraphs 39 through 41 (AR section 100.39—.41).

Unmodified Cash Basis

.05 Statements of Cash Receipts and Disbursements

ABC Charity-Dinner Fund

Statement of Cash Receipts and Disbursements
For the Year Ended December 31, 19X5

Cash receipts		
Contributions	$xx,xxx	
Sales of raffle tickets	xx,xxx	
Advances from ABC Charity General Fund	x,xxx	
Interest on passbook savings accounts	xxx	
Total cash receipts		$xx,xxx
Cash disbursements		
Food purchases	$xx,xxx	
Refund of advances from ABC Charity General Fund	x,xxx	
Advertising	x,xxx	
Professional fees	x,xxx	
Postage	x,xxx	
Travel	x,xxx	
Telephone	x,xxx	
Rental	x,xxx	
Raffle prizes	x,xxx	
Contribution to (Name of Recipient)	xx,xxx	
Total cash disbursements		xx,xxx
Excess of cash receipts over cash disbursements		x,xxx
Cash balance, January 1, 19X5		x,xxx
Cash balance, December 31, 19X5		$ x,xxx
Cash balance as of December 31, 19X5 is accounted for as follows:		
Demand deposit, Tenth National Bank		$ xxx
Passbook deposit, Penny Savings Bank		x,xxx
Total		$ x,xxx

See note(s) to statement of cash receipts and disbursements.

.06 Notes to Statements of Cash Receipts and Disbursements

ABC Charity-Dinner Fund

Note(s) to Statement of Cash Receipts and Disbursements

Note . . . Accounting Policies:

The ABC Charity-Dinner Fund financial statement presents cash receipts and cash disbursements in accordance with the resolution of April 1, 19XX of the Board of Governors of ABC Charity. [Consequently, revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred.] [2] It is the policy of the ABC Charity-Dinner Fund Committee to have no outstanding advances to or from the ABC Charity General Fund at year end.

* * * * *

If applicable, there may also be a note(s) on contingencies and commitments.

---

[2] Some accountants omit this sentence from the above note because the related statement merely presents cash receipts and cash disbursements, does not include the terms "revenue" and "expense," and does not purport to present financial position and results of operations.

Modified Cash Basis (a Corporation)

.07 Statements of Assets and Liabilities Arising from Cash Transactions—Modified Cash Basis

Y and Z Corporation

Statements of Assets and Liabilities
Arising from Cash Transactions
December 31, 19X2 and 19X1

	19X2	19X1
Assets		
Current assets:		
Cash	$ x,xxx	$ x,xxx
Due from officer	—	x,xxx
Total current assets	x,xxx	x,xxx
Property and equipment, at cost:		
Furniture	xx,xxx	xx,xxx
Office equipment	xx,xxx	xx,xxx
Leasehold improvements	x,xxx	x,xxx
	xx,xxx	xx,xxx
Less: accumulated depreciation and amortization	x,xxx	x,xxx
	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx
Liabilities		
Current liabilities:		
Loan payable to bank, current portion	$ x,xxx	$ x,xxx
Note payable to officer	x,xxx	—
Total current liabilities	x,xxx	x,xxx
Loan payable to bank less current portion included above	x,xxx	x,xxx
	x,xxx	x,xxx
Stockholders' Equity		
Common stock, $ xxx par value, authorized xxx number of shares, issued and outstanding xxx shares	x,xxx	x,xxx
Additional paid in capital	xx,xxx	xx,xxx
Retained earnings—modified cash basis	x,xxx	x,xxx
	xx,xxx	xx,xxx
	$xx,xxx	$xx,xxx

See notes to these financial statements.

.08 Statements of Revenues Collected and Expenses and Retained Earnings—Modified Cash Basis

Y and Z Corporation

Statements of Revenue Collected and Expenses
and Retained Earnings—Modified Cash Basis
For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Revenues collected		
Operating revenues	$ xx,xxx	$ xx,xxx
Miscellaneous	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Expenses paid, depreciation and amortization		
Salaries and bonuses	xx,xxx	xx,xxx
Advertising	xx,xxx	xx,xxx
Rent	x,xxx	x,xxx
Depreciation and amortization	x,xxx	x,xxx
State and local income taxes paid	x,xxx	x,xxx
Federal income taxes paid	xx,xxx	xx,xxx
Other expenses paid	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Excess of revenue collected over expenses	xx,xxx	xx,xxx
Retained earnings—modified cash basis		
Balance, beginning of year	x,xxx	x,xxx
	xx,xxx	xx,xxx
Less cash dividends paid during the year	xx,xxx	xx,xxx
Balance, end of year	$ x,xxx	$ x,xxx

See notes to these financial statements.

.09 Notes to Financial Statements—Modified Cash Basis

Y and Z Corporation

Notes to Financial Statements—Modified Cash Basis

Note . . . Summary of Significant Accounting Policies:

- Principles of Accounting

  The Company's policy is to prepare its financial statements on a modified cash basis that includes recording of depreciation and amortization on capitalized assets. Under this basis, revenues are recognized when collected rather than when earned, and expenditures are recognized when paid rather than when incurred. Consequently, accounts receivable due from customers, amounts due vendors and suppliers, and the unpaid portion of taxes at December 31, 19X2 and 19X1 are not included in the financial statements. If an expenditure results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset.

- Property and Equipment

  Furniture, office equipment and leasehold improvements are recorded at cost. Depreciation on furniture and office equipment is provided on the double declining balance and straight line methods over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

- Income Taxes

  Income taxes are recognized as an expense when paid. Income taxes incurred are determined on a cash receipts and disbursements method and amounted to $x,xxx and $x,xxx for the tax years 19X2 and 19X1, respectively. Investment tax credits are accounted for as a reduction of federal income taxes in the period the benefit is realized. Investment tax credits amounted to $x,xxx and $x,xxx for the tax years 19X2 and 19X1, respectively.

* * * * * * *

As indicated in the introduction to this section (AAM section 11,700.01—.04), the additional notes that might be appropriate are similar to those required under generally accepted accounting principles, some of which are illustrated in AAM section 11,600. Accordingly, such illustrative notes are not provided in this section. The accompanying financial statements for Y and Z Corporation might also include notes on the following matters:

- Property and equipment, disclosures comparable to those required by APB Opinion No. 12, paragraphs 4—5, "Disclosure of Depreciable Assets and Depreciation" (AC section D40.105) unless they are included in the body of the financial statements.
- Related party transactions, disclosures required by SFAS No. 57, paragraph 2 (AC section R36.102), concerning the balance due from officer and the note payable to officer.
- Loan payable, disclosure of such matters as interest rate, maturity, payment terms, restrictive covenants (if any), and description and amounts of any assets pledged to collateralize the note unless they are included in the financial statements.
- Leases, disclosures as operating leases comparable to those required by FASB Statement No. 13, paragraph 16 (AC section L10.112b—.112d).
- Income taxes, disclosure of amounts of unused operating loss carryforwards together with expiration dates, and significant amounts of any other unused deductions or credits together with expiration dates.
- Changes in capital stock and additional paid in capital, if any.
- Contingencies and commitments, disclosures comparable to those required by FASB Statement No. 5 (AC section C59).

Modified Cash Basis (a Partnership)

.10 Statements of Assets and Liabilities—Modified Cash Basis

Alpha and Bravo, a Partnership
Statements of Assets and Liabilities—Modified Cash Basis
December 31, 19X2 and 19X1

	19X2	19X1
ASSETS		
Current Assets:		
Cash	$xx,xxx	$xx,xxx
U. S. Treasury bill, at cost which approximates market	xx,xxx	xx,xxx
Total current assets	xx,xxx	xx,xxx
Property and equipment, at cost:		
Furniture and equipment	xx,xxx	xx,xxx
Law books	xx,xxx	xx,xxx
Leasehold improvements	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Less: Accumulated depreciation and amortization	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Total assets	$xx,xxx	$xx,xxx
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Current portion of note payable	$xx,xxx	$xx,xxx
Payroll taxes withheld and accrued	xx,xxx	xx,xxx
Client advances	xx,xxx	xx,xxx
Pension contribution payable	xx,xxx	xx,xxx
Total current liabilities	xx,xxx	xx,xxx
Note payable due April 30, 19X6 less current portion included above	xx,xxx	xx,xxx
Total liabilities	xx,xxx	xx,xxx
Partners' Capital	xx,xxx	xx,xxx
Total liabilities and partners' capital	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

.11 Statements of Changes in Partners' Capital—Modified Cash Basis

Alpha and Bravo, a Partnership
Statements of Changes in Partners' Capital—Modified Cash Basis
For the Years Ended December 31, 19X2 and 19X1

	Alan B. Alpha	Bertrand S. Bravo	Cynthia Q. Charlie	Total
Balance, January 1, 19X1	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
19X1				
Excess of revenues collected over expenses	xx,xxx	xx,xxx	xx,xxx	xx,xxx
	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Decreases in equity[a]				
Withdrawals	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Pension	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total decreases	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Balance, December 31, 19X1	xx,xxx	xx,xxx	xx,xxx	xx,xxx
19X2				
Excess of revenues collected over expenses	xx,xxx	xx,xxx	xx,xxx	xx,xxx
	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Decreases in equity[a]				
Withdrawals	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Pension	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total decreases	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Balance, December 31, 19X2	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of the financial statements.

[a] Some partnerships may prefer to include partners' salaries and benefits among expenses for financial reporting purposes. The reporting classification of partners' salaries and benefits would be determined based on the specific facts and circumstances of each case.

.12 Statements of Revenues Collected and Expenses—Modified Cash Basis

Alpha and Bravo, a Partnership
Statement of Revenues Collected and Expenses—Modified Cash Basis
For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Revenues collected		
Professional fees	$xxx,xxx	$xxx,xxx
Interest	x,xxx	x,xxx
Other	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Expenses		
Salaries		
Professional	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Payroll taxes		
Professional	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Pension		
Professional	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Group insurance		
Professional	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Insurance—general	xx,xxx	xx,xxx
Outside professional services	xx,xxx	xx,xxx
Rent	xx,xxx	xx,xxx
Office supplies and expense	xx,xxx	xx,xxx
Telephone	xx,xxx	xx,xxx
Dues	xx,xxx	xx,xxx
Subscriptions and books	xx,xxx	xx,xxx
Travel and entertainment	xx,xxx	xx,xxx
Equipment rental	xx,xxx	xx,xxx
Maintenance and repairs	xx,xxx	xx,xxx
Depreciation and amortization	xx,xxx	xx,xxx
Use tax	xx,xxx	xx,xxx
Interest	xx,xxx	xx,xxx
Continuing legal education	xx,xxx	xx,xxx
Utilities	xx,xxx	xx,xxx
Miscellaneous	xx,xxx	xx,xxx
	xxx,xxx	xxx,xxx
Excess of revenues collected over expenses	$xxx,xxx	$xxx,xxx

The accompanying notes are an integral part of the financial statements.

.13 Notes to Financial Statements—Modified Cash Basis

Alpha and Bravo, a Partnership

Notes to Financial Statements—Modified Cash Basis

Note . . . Summary of Significant Accounting Policies:

- Principles of Accounting

  The Partnership's policy is to prepare its financial statements on a modified cash basis that includes recording of depreciation and amortization on capitalized assets, liabilities for payroll withholdings, and accrual of payroll taxes and pension plan contributions. Under this basis, revenues are recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than incurred. Consequently, the financial statements do not include accounts receivable due from clients, amounts due vendors and suppliers, prepaid expenses and liabilities for accrued expenses other than those described above as of December 31, 19X2 and 19X1. If an expenditure results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset.

- Property and Equipment

  Furniture, equipment, law books, and leasehold improvements are recorded at cost. Depreciation of furniture, equipment, and law books is provided on the double declining balance and straight line methods over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

- Income Taxes

  The Partnership is not subject to income taxes as a separate entity. Taxes on income of the partnership are determined by the individual circumstances of each partner and based on the individual income tax returns of the partners. Consequently, partnership excess of revenues collected over expenses is presented without a provision for taxes on income.

* * * * *

As indicated in the introduction to this section (AAM section 11,700.01—.04) the additional notes that might be appropriate are similar to those required under generally accepted accounting principles, some of which are illustrated in AAM section 11,600. Accordingly, such illustrative notes are not provided in this section. The accompanying financial statements for the Alpha and Bravo partnership might also include notes on the following matters:

- Property and equipment, disclosures comparable to those required by APB Opinion No. 12, paragraphs 4—5, "Disclosure of Depreciable Assets and Depreciation" (AC section D40.105) unless they are included in the body of the financial statements.
- Notes payable, disclosure of such matters as interest rate, maturity, payment terms, restrictive covenants (if any), and description and amounts of any assets pledged to collateralize the note unless they are included in the body of the financial statements.
- Leases, disclosures as operating leases comparable to those required by FASB Statement No. 13, paragraph 16 (AC section L10.112b—.112d).
- Pension plan, disclosures comparable to those required by FASB Statement No. 36 (AC section P15).
- Contingencies and commitments, disclosures comparable to those required by FASB Statement No. 5 (AC section C59).

Modified Cash Basis (a Professional Corporation)

.14 Statements of Assets and Liabilities—Modified Cash Basis

M, O and D, P.C.
Statements of Assets and Liabilities—Modified Cash Basis
December 31, 19X2 and 19X1

	19X2	19X1
Current Assets:		
Cash	$ xx,xxx	$ xx,xxx
U. S. Treasury bill, at cost, which approximates market	xx,xxx	xx,xxx
Due from stockholder	x,xxx	x,xxx
Total current assets	xx,xxx	xx,xxx
Equipment and Leasehold Improvements, at Cost:		
Dental equipment	xxx,xxx	xxx,xxx
Office equipment	xx,xxx	xx,xxx
Leasehold improvements	xx,xxx	xx,xxx
	xxx,xxx	xxx,xxx
Less, accumulated depreciation and amortization	x,xxx	x,xxx
Net equipment and leasehold improvements	xx,xxx	xx,xxx
Cash surrender value of life insurance on officers (face amount $xxx,xxx)	xx,xxx	xx,xxx
Total assets	$xxx,xxx	$xxx,xxx
Current Liabilities:		
Current portion of installment loan	$ x,xxx	$ x,xxx
Payroll taxes and withholdings	x,xxx	x,xxx
Accrued federal income taxes	x,xxx	x,xxx
Accrued profit sharing	x,xxx	x,xxx
Total current liabilities	x,xxx	x,xxx
Installment loan, less current portion included above	xx,xxx	xx,xxx
	xx,xxx	xx,xxx
Stockholders' Equity:		
Common stock $10 par value; 1000 shares authorized; issued and outstanding 300 shares in 19X2, 200 shares in 19X1	x,xxx	x,xxx
Additional paid in capital	xx,xxx	xx,xxx
Retained earnings, modified cash basis	xx,xxx	xx,xxx
Total stockholders' equity	xx,xxx	xx,xxx
Total liabilities and stockholders' equity	$xxx,xxx	$xxx,xxx

See accompanying notes to these financial statements.

.15 Statements of Revenues Collected and Expenses and Retained Earnings—Modified Cash Basis

M, O and D, P.C.

Statements of Revenues Collected and Expenses and Retained Earnings—Modified Cash Basis
For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Revenues collected:		
Fees	$xxx,xxx	$xxx,xxx
Interest income	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Expenses:		
Dental supplies	x,xxx	x,xxx
Depreciation and amortization	x,xxx	x,xxx
Dues and licenses	xxx	xxx
Insurance	x,xxx	x,xxx
Interest	x,xxx	x,xxx
Laboratory fees	x,xxx	x,xxx
Maintenance and repairs—dental equipment	x,xxx	x,xxx
Maintenance and repairs—other	xxx	xxx
Medical reimbursement plan	x,xxx	x,xxx
Miscellaneous	x,xxx	x,xxx
Office supplies and expense	x,xxx	x,xxx
Pension	x,xxx	x,xxx
Profit sharing	x,xxx	x,xxx
Professional fees	x,xxx	x,xxx
Professional meetings and seminars	x,xxx	x,xxx
Rent	x,xxx	x,xxx
Salaries—officers	xxx,xxx	xxx,xxx
Salaries—other	xx,xxx	xx,xxx
Taxes—payroll	x,xxx	x,xxx
Taxes—other	x,xxx	x,xxx
Telephone	x,xxx	x,xxx
Travel	xxx	xxx
Utilities	x,xxx	x,xxx
	xxx,xxx	xxx,xxx
Excess of revenues collected over expenses before income taxes	x,xxx	x,xxx
Income Taxes	x,xxx	x,xxx
Net earnings—modified cash basis	x,xxx	x,xxx
Retained Earnings—Modified Cash Basis		
Balance, beginning of year	xx,xxx	xx,xxx
Less, cash dividends paid during the year	(x,xxx)	(x,xxx)
Balance, end of year	$ xx,xxx	$ xx,xxx

See accompanying notes to these financial statements.

.16 Notes to Financial Statements—Modified Cash Basis

M, O and D, P.C.

Notes to Financial Statements—Modified Cash Basis

Note . . . Summary of Significant Accounting Policies:

- Principles of Accounting

  The Company's policy is to prepare its financial statements on a modified cash basis that includes recording of depreciation and amortization on capitalized assets, liabilities for payroll withholdings, and accruals of payroll taxes, profit sharing contributions, and income taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. Consequently, accounts receivable due from patients, trade accounts payable and accrued expenses other than those mentioned above are not included in the financial statements as of December 31, 19X2 and 19X1. If an expenditure results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset.

- Equipment and Leasehold Improvements

  Equipment and leasehold improvements are recorded at cost. Depreciation of equipment is provided on the double declining balance and straight line methods over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

- Income Taxes

  Investment tax credits are accounted for as a reduction of federal income taxes in the period the tax benefit is realized. Investment and new jobs credits amounted to $x,xxx in 19X2 and $x,xxx in 19X1.

* * * * *

As indicated in the introduction to this section (AAM section 11,700.01—.04) the additional notes that might be appropriate are similar to those required under generally accepted accounting principles, some of which are illustrated in AAM section 11,600. Accordingly, such illustrative notes are not provided in this section.

The accompanying financial statements for M, O, and D, P.C., might also include notes on the following matters:

- Related party transactions, disclosures required by SFAS No. 57, paragraph 2 (AC section R36.102), concerning the balance due from stockholder.
- Equipment and leasehold improvements, disclosures comparable to those required by APB Opinion No. 12, paragraphs 4—5, "Disclosure of Depreciable Assets and Depreciation," (AC section D40.105) unless they are included in the body of the financial statements.
- Life insurance on officers, if connected with a plan that requires the proceeds be used to retire an officer's equity in event of death, disclosures of the plan and related restriction on the life insurance would be comparable to those required by FASB Statement No. 5 (AC section C59).
- Leases, disclosures as operating leases comparable to those required by FASB Statement No. 13, paragraph 16 (AC section L10.112b—.112d).
- Installment loan, disclosure of such matters as effective rate of interest, payment terms, date of final payment, restrictive covenants (if any) and description and amount of assets pledged to collateralize the loan unless they are included in the body of the financial statements.
- Pension plan, disclosures comparable to those required by FASB Statement No. 36 (AC section P15).
- Profit sharing, disclosure of a brief general description of the plan and any contingencies or commitments connected with the plan.
- Stockholders' equity, disclosure of any restrictions on transfer of equity interests connected with the entity's status as a professional corporation practicing dentistry.
- Other contingencies and commitments, disclosures comparable to those required by FASB Statement No. 5 (AC section C59).

Modified Cash Basis (a Subchapter S Corporation)

.17 Statements of Assets and Liabilities—Modified Cash Basis

S Incorporated

Statements of Assets and Liabilities—Modified Cash Basis
December 31, 19X2 and 19X1

	19X2	19X1
Assets		
Current assets:		
Cash	$ x,xxx	$ x,xxx
Due from officer	—	x,xxx
Total current assets	x,xxx	x,xxx
Property and equipment, at cost:		
Furniture	xx,xxx	xx,xxx
Office equipment	xx,xxx	xx,xxx
Leasehold improvements	x,xxx	x,xxx
	xx,xxx	xx,xxx
Less: accumulated depreciation and amortization	x,xxx	x,xxx
	xx,xxx	xx,xxx
Total assets	$xx,xxx	$xx,xxx
Liabilities		
Current liabilities:		
Note payable to bank	$ x,xxx	$ x,xxx
Accrued state and total income taxes	x,xxx	—
Total current liabilities	x,xxx	x,xxx
Note payable to bank less current portion included above	x,xxx	x,xxx
	x,xxx	x,xxx
Stockholders' equity—modified cash basis		
Common stock, $xxx par value, authorized xxx number of shares, issued and outstanding xxx shares	x,xxx	x,xxx
Additional paid in capital	xx,xxx	xx,xxx
Retained earnings—modified cash basis *	x,xxx	x,xxx
	xx,xxx	xx,xxx
Total liabilities and stockholders' equity	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

* Retained earnings would be referenced to a note that discloses the Subchapter S election.

.18 Statements of Revenues Collected and Expenses, and Retained Earnings—Modified Cash Basis

S Incorporated

Statements of Revenue Collected and Expenses
and Retained Earnings—Modified Cash Basis
For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Revenues collected		
Operating revenue	$ xx,xxx	$ xx,xxx
Miscellaneous	x,xxx	x,xxx
	xx,xxx	xx,xxx
Expenses paid, depreciation and amortization		
Salaries and bonuses	xx,xxx	xx,xxx
Advertising	xx,xxx	xx,xxx
Rent	x,xxx	x,xxx
Depreciation and amortization	x,xxx	x,xxx
Other	x,xxx	x,xxx
	xx,xxx	xx,xxx
Excess of revenue collected over expenses before provision for income taxes	xx,xxx	xx,xxx
Provision for state and local income taxes	x,xxx	x,xxx
Excess of revenue collected over expenses	xx,xxx	xx,xxx
Retained earnings—modified cash basis *		
Balance, beginning of year	x,xxx	x,xxx
	xx,xxx	xx,xxx
Less: dividends	xx,xxx	xx,xxx
Balance, end of year	$ x,xxx	$ x,xxx

The accompanying notes are an integral part of these financial statements.

* Retained earnings would be referenced to a note that discloses the Subchapter S election.

.19 Notes to Financial Statements—Modified Cash Basis

S Incorporated

Notes to Financial Statements—Modified Cash Basis

Note . . . Summary of Significant Accounting Policies:

- Principles of Accounting

  The Company's policy is to prepare its financial statements on a modified cash basis that includes recording of depreciation and amortization on capitalized assets, and of accrued liabilities for state and local income taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred. Consequently, commissions receivable, trade accounts payable, prepaid expenses, and certain accrued expenses at December 31, 19X2 and 19X1 are not included in the financial statements. If an expenditure results in the creation of an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset.

- Property and Equipment

  Property, equipment and leasehold improvements are recorded at cost. Depreciation of property and equipment is provided on the straight line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

- Income Taxes

  The Company has elected by unanimous consent of its stockholders to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. [...... is allowed no net operating loss carryover or carryback as a deduction.*] Instead, the stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income. [...... include their respective shares of the Company's net operating loss in their individual income tax returns.*]

* * * * *

* Illustrative language in the event of an operating loss.

As indicated in the introduction to this section (AAM section 11,700.01—.04) the additional notes that might be appropriate are similar to those required under generally accepted accounting principles, some of which are illustrated in AAM section 11,600. Accordingly, such illustrative notes are not provided in this section. The accompanying financial statements for S Corporation might also include notes on the following matters:

- Related party transactions, disclosures required by SFAS No. 57, paragraph 2 (AC section R36.102), concerning the balance due from officer.
- Property and equipment, additional disclosures required by APB Opinion No. 12, paragraphs 4—5, "Disclosure of Depreciable Assets and Depreciation" (AC section D40.105) unless they are included in the body of the financial statements.
- Note payable, disclosure of such matters as interest rate, maturity, payment terms, restrictive covenants (if any), and description and amounts of any assets pledged to collateralize the note unless they are included in the body of the financial statements.
- Leases, disclosures as operating leases comparable to those required by FASB Statement No. 13, paragraph 16b, c and d (AC section L10.112b—.112d).
- Dividends, Subchapter S corporations often pay substantial dividends after the end of the year. A dividend declared before the end of the year generally would be recorded as a liability and shown separately in the statement of assets and liabilities. A dividend declared after the end of the year would be disclosed as a subsequent event in conformity with FASB Statement No. 5, paragraph 11 (AC section C59.112) and SAS No. 1, section 560.01—.09 (AU section 560.01—.09).
- Subchapter S election, if there is a danger that the Subchapter S election could be retroactively terminated by the Internal Revenue Service, the contingency that the corporation might be required to pay federal income taxes would be disclosed in conformity with FASB Statement No. 5, paragraph 10 (AC section C59.109—.111).
- Other contingencies and commitments, disclosures comparable to those required by FASB Statement No. 5 (AC section C59).

Income Tax Basis Accrual Method

.20 Statements of Assets, Liabilities, and Stockholders' Equity—Income Tax Basis Accrual Method

M Corporation

Statements of Assets, Liabilities, and
Stockholders' Equity—Federal Income Tax Basis *
December 31, 19X2 and 19X1

ASSETS	19X2	19X1
Current assets		
Cash	$xx,xxx	$xx,xxx
Trade accounts receivable, less allowances for bad debts: 19X2, $ x,xxx; 19X1, $ x,xxx	xx,xxx	xx,xxx
Installment accounts receivable, less deferred income: 19X2, $ x,xxx; 19X1, $ x,xxx	xx,xxx	xx,xxx
Inventories	xx,xxx	xx,xxx
Investments in U. S. Government obligations at cost (market: 19X2, $xx,xxx; 19X1, $xx,xxx), including accrued interest of: 19X2, $ xxx; 19X1, $ xxx	xx,xxx	xx,xxx
Prepaid expenses	xx,xxx	xx,xxx
Total current assets	xx,xxx	xx,xxx
Investment in L Company, at cost	xx,xxx	xx,xxx
Property, plant and equipment, less accumulated depreciation and amortization: 19X2, $xx,xxx; 19X1, $xx,xxx	xx,xxx	xx,xxx
Cash surrender value of life insurance on officers (face amount $xxx,xxx)	x,xxx	x,xxx
Total assets	$xx,xxx	$xx,xxx
LIABILITIES		
Current liabilities		
Accounts payable	$xx,xxx	$xx,xxx
Construction loan payable	xx,xxx	xx,xxx
Current maturities of long-term debt	xx,xxx	xx,xxx
Accrued payroll, interest, and other expenses	xx,xxx	xx,xxx
Income taxes payable	xx,xxx	xx,xxx
Total current liabilities	xx,xxx	xx,xxx
Long-term debt, less current maturities included above	xx,xxx	xx,xxx
Stockholders' Equity		
Common stock, $xx par value, authorized x,xxx shares, issued and outstanding: 19X2, xxx shares; 19X1, xxx shares	x,xxx	x,xxx
Additional paid in capital	xx,xxx	xx,xxx
Retained earnings—income tax basis *	xx,xxx	xx,xxx
Total stockholders' equity	xx,xxx	xx,xxx
Total liabilities and stockholders' equity	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of the financial statements.

* The words "accrual method" are not included in the title and caption because the note on significant accounting policies would disclose the method.

.21 Statements of Income—Income Tax Basis Accrual Method

M Corporation

Statement of Income—Federal Income Tax Basis *
For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Revenues		
Sales, less returns and allowances: 19X2, $x,xxx; 19X1, $x,xxx	$xx,xxx	$xx,xxx
Deferred income on installment sales	(x,xxx)	(x,xxx)
Deferred income recognized	x,xxx	x,xxx
Dividends received from L Corporation	x,xxx	x,xxx
Interest	x,xxx	x,xxx
Gain on sale of building	x,xxx	x,xxx
Nontaxable interest on obligations of state and local governments	x,xxx	x,xxx
	xx,xxx	xx,xxx
Expenses		
Cost of sales	xx,xxx	xx,xxx
Salaries and wages, including compensation of officers: 19X2, $xx,xxx; 19X1, $xx,xxx	xx,xxx	xx,xxx
Provision for bad debts	x,xxx	x,xxx
Rents	x,xxx	x,xxx
Taxes	x,xxx	x,xxx
Interest	x,xxx	x,xxx
Depreciation and amortization	x,xxx	x,xxx
Advertising	x,xxx	x,xxx
State and local income taxes	x,xxx	x,xxx
Other deductions	x,xxx	x,xxx
Nondeductible expenses:		
Premiums for life insurance on stockholders	x,xxx	x,xxx
Fines, weight violations of motor vehicles	xxx	xxx
	xx,xxx	xx,xxx
Income including nontaxable revenues and nondeductible expenses before federal income taxes and extraordinary item	xx,xxx	xx,xxx
Federal income taxes	xx,xxx	xx,xxx
Net income—income tax basis before extraordinary item	xx,xxx	xx,xxx
Extraordinary item—life insurance proceeds—death of officer, nontaxable income	xx,xxx	xx,xxx
Net income—federal income tax basis *	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

* The words "accrual method" are not included in the title and caption because the note on significant accounting policies would disclose the method.

.22 Statements of Retained Earnings—Income Tax Basis Accrual Method

M Corporation

Statements of Retained Earnings—Federal Income Tax Basis *

For the Years Ended December 31, 19X2 and 19X1

	19X2	19X1
Balance, beginning of year	$xx,xxx	$xx,xxx
Net income—federal income tax basis	xx,xxx	xx,xxx
Less: dividends	(xx,xxx)	(xx,xxx)
Balance, end of year	$xx,xxx	$xx,xxx

The accompanying notes are an integral part of these financial statements.

* The words "accrual method" are not included in the title and caption because the note on significant accounting policies would disclose the method.

.23 Notes to Financial Statements—Income Tax Basis Accrual Method

M Corporation

Notes to Financial Statements—Federal Income Tax Basis

Note . . . Summary of Significant Accounting Policies:

Basis of Accounting—The accompanying financial statements have been prepared on the accrual method of accounting used for federal income tax purposes. Consequently, as indicated below, certain revenues and expenses are recognized in the determination of income in different reporting periods than they would be if the financial statements were prepared in conformity with generally accepted accounting principles.

Installment Sales and Related Receivables—Gross profit on certain installment sales is presented as deferred income in the balance sheet and recognized as income when collected. If the accompanying financial statements were prepared in conformity with generally accepted accounting principles, the gross profit would be recognized when the sale is made and deferred income taxes would be provided for the timing difference between recognition of income for financial reporting purposes and determination of income taxes.

Inventories—Inventories are generally stated at cost determined by the last-in, first-out (LIFO) method, which is not in excess of market.

Investment in L Corporation—The Company's investment in 30% of the common stock of L Corporation is stated at cost. Dividends thereon are recognized as income when received. If the investment were presented in conformity with generally accepted accounting principles, it would also include the Company's share of the undistributed earnings of L Corporation since acquisition. The Company's share of the current earnings of L Corporation would be recognized as an increase of the investment and as income when earned by L Corporation. Deferred income taxes would be provided for the timing difference between recognition of income for financial reporting purposes and for determination of income taxes. Dividends received from L Corporation would be recognized as a reduction in the investment with a related reduction of deferred taxes provided thereon.

Property, Plant and Equipment—Property, plant, equipment and leasehold improvements are recorded at cost. Depreciation of property, plant, and equipment is provided on the double declining balance method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight line method over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

Interest on the construction loan (further described in Note XX, Loans Payable) to finance construction of the Company's combined shopping center and headquarters facility in East Wherever (see Note XX, Contractual Commitments) is expensed as incurred. Real estate taxes on that property are also expensed as incurred. If the accompanying financial statements were prepared in conformity with generally accepted accounting principles, interest costs and real estate taxes would be capitalized as part of the cost of the asset, and deferred income taxes would be provided thereon for the timing difference between recognition of such costs as a component of depreciation provided over the estimated useful life of the asset, and recognition as a deduction for determination of taxable income.

Net Income—Federal Income Tax Basis—In accordance with the Company's policy, net income—federal income tax basis includes nontaxable revenue and nondeductible expenses, in addition to taxable revenues, deductible expenses, and income taxes.

* * * * *

As indicated in the introduction to this section (AAM section 11,700.01—.04) the additional notes that might be appropriate are similar to those required under generally accepted accounting principles, some of which are illustrated in AAM section 11,600. Accordingly such illustrative notes are not provided in this section. The accompanying financial statements for M Corporation might also include notes on the following matters:

- Inventories, disclosures of major classes of inventory, method(s) of determining inventory cost, and whether the inventories are stated at the lower of cost or market.
- Investment in L Company at cost, disclosures comparable to those required by APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," paragraph 20 (AC section I82.110), might include summarized information about the assets, liabilities and results of operations of L Corporation, and the amounts of the Company's share of undistributed earnings of L Corporation since acquisition of the investment.
- Property, plant and equipment, additional disclosures required by APB Opinion No. 12, paragraphs 4—5 "Disclosure of Depreciable Assets and Depreciation" (AC section D40.105).
- Construction loan and long-term debt, disclosure of such matters as interest rate, maturity, payment terms, restrictive covenants, and assets pledged or mortgaged as collateral.

- Leases, disclosures comparable to those required by FASB Statement No. 13, paragraph 16 (AC section L10.112a(1)—.112a(4) and L10.112b—.112d).
- Income taxes, disclosure of amounts of operating loss carryovers, special deductions, and tax credits included in determination of federal income taxes; disclosure of amounts of unused operating loss carryforwards together with expiration dates, and significant amounts of any other unused deductions or credits together with expiration dates.
- Commitments, disclosure of commitments in connection with the construction project mentioned in the note on accounting policies and other commitments (if any) comparable to those required by FASB Statement No. 5 (AC section C59).
- Contingencies, disclosures comparable to those required by FASB Statement No. 5 (AC section C59).

AAM

APPENDIXES

Pronouncements cited in the Audit and Accounting Manual are cross-referenced to sections in the text

TABLE OF CONTENTS

Cross-References

Page

American Institute of Certified Public Accountants

Accounting Research Bulletins 20,011
Accounting Principles Board Opinions 20,021
Accounting Principles Board Statements 20,035
Statements on Auditing Standards 20,041
Audit and Accounting Guides 20,065
Auditing Interpretations 20,071
Statements on Standards for Accounting and Review Services 20,081
Accounting and Review Services Interpretations 20,091

Financial Accounting Standards Board

FASB Statements of Financial Accounting Standards 20,101
FASB Interpretations 20,121
FASB Technical Bulletins 20,131

The next page is 20,011.

Accounting Research Bulletins

SEQUENCED ON REFERENCE

SOURCE		REFERENCE			
AAM	8400.05D1	ARB	43	01A.05	
AAM	8400.04D1	ARB	43	02A.01	
AAM	8400.04D1	ARB	43	02A.02	
AAM	8400.04D2	ARB	43	02A.02	
AAM	8400.04D3	ARB	43	02A.02	
AAM	8400.05A1	ARB	43	03A	
AAM	8400.05E1	ARB	43	03A.04	
AAM	8400.05A2	ARB	43	03A.05	
AAM	8400.05A2	ARB	43	03A.06	
AAM	8400.05B1	ARB	43	03A.06	
AAM	8400.05J1	ARB	43	03A.07	
AAM	8400.05K5	ARB	43	03A.07	
AAM	8400.05J1	ARB	43	03A.08	
AAM	8400.05K5	ARB	43	03A.08	
AAM	8400.05E1	ARB	43	03A.09	
AAM	8400.05E2	ARB	43	03A.09	
AAM	6500.390	ARB	43	04	
AAM	8400.05E1	ARB	43	04	.03
AAM	8400.05E3	ARB	43	04	.04
AAM	8400.05E3	ARB	43	04	.05
AAM	8400.05E3	ARB	43	04	.06
AAM	8400.05E3	ARB	43	04	.07
AAM	8400.05E3	ARB	43	04	.08

Accounting Research Bulletins (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE			
AAM	8400.05E3	ARB	43	04	.09
AAM	8400.05E3	ARB	43	04	.10
AAM	8400.05E3	ARB	43	04	.11
AAM	8400.05E3	ARB	43	04	.12
AAM	8400.05E3	ARB	43	04	.13
AAM	8400.05E3	ARB	43	04	.14
AAM	8400.05E3	ARB	43	04	.15
AAM	8400.05E3	ARB	43	04	.16
AAM	8400.05N8	ARB	43	07A.10	
AAM	8400.07B2E	ARB	43	07B	
AAM	8400.05D2	ARB	43	11A.04	
AAM	8400.04H4	ARB	43	12	.05
AAM	8400.04H5	ARB	43	12	.08
AAM	8400.04H5	ARB	43	12	.09
AAM	8400.05N5	ARB	43	13B.15	
AAM	8400.06A11C	ARB	43	13B.15	
AAM	8400.06A3	ARB	45		.15
AAM	8400.05N8	ARB	46		
AAM	8400.04F1C	ARB	51		.04

Accounting Research Bulletins (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04F1A	ARB	51	.05
AAM	8400.04F1B	ARB	51	.06

The next page is 20,021.

Accounting Principles Board Opinions

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05G1E	APB	04	.11
AAM	8400.06B4	APB	04	.11
AAM	8400.05D3	APB	06	.14
AAM	7200.15	APB	08	
AAM	8400.04L2	APB	08	
AAM	8400.06A10	APB	08	.08
AAM	8400.06A10	APB	08	.09
AAM	8400.06A10	APB	08	.10
AAM	8400.06A10	APB	08	.11
AAM	8400.06A10	APB	08	.12
AAM	8400.06A10	APB	08	.13
AAM	8400.06A10	APB	08	.14
AAM	8400.06A10	APB	08	.15
AAM	8400.06A10	APB	08	.16
AAM	8400.06A10	APB	08	.17
AAM	8400.06A10	APB	08	.18
AAM	8400.06A10	APB	08	.19
AAM	8400.06A10	APB	08	.20
AAM	8400.06A10	APB	08	.21
AAM	8400.06A10	APB	08	.22
AAM	8400.06A10	APB	08	.23

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.06A10	APB	08	.24
AAM	8400.06A10	APB	08	.25
AAM	8400.06A10	APB	08	.26
AAM	8400.06A10	APB	08	.27
AAM	8400.06A10	APB	08	.28
AAM	8400.06A10	APB	08	.29
AAM	8400.06A10	APB	08	.30
AAM	8400.06A10	APB	08	.31
AAM	8400.06A10	APB	08	.32
AAM	8400.06A10	APB	08	.33
AAM	8400.06A10	APB	08	.34
AAM	8400.06A10	APB	08	.35
AAM	8400.06A10	APB	08	.36
AAM	8400.06A10	APB	08	.37
AAM	8400.06A10	APB	08	.38
AAM	8400.06A10	APB	08	.39
AAM	8400.06A10	APB	08	.40
AAM	8400.06A10	APB	08	.41
AAM	8400.06A10	APB	08	.42
AAM	8400.06A10	APB	08	.43
AAM	8400.06A10	APB	08	.44

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.06A10	APB	08	.45
AAM	8400.05O4	APB	09	.26
AAM	8400.06E1	APB	09	.28
AAM	8400.05N3	APB	10	.10
AAM	8400.05N4	APB	10	.11
AAM	8400.06A2	APB	10	.12
AAM	8400.05C5A	APB	11	
AAM	8400.05I5	APB	11	.57
AAM	8400.05M1	APB	11	.57
AAM	8400.06B1	APB	11	.60
AAM	8400.06B2	APB	11	.61
AAM	8400.06B3	APB	11	.63
AAM	8400.05A3	APB	12	.03
AAM	8400.05C8	APB	12	.03
AAM	8400.05D5	APB	12	.03
AAM	8400.05E4	APB	12	.03
AAM	11,700.09	APB	12	.04
AAM	11,700.13	APB	12	.04
AAM	11,700.16	APB	12	.04
AAM	11,700.19	APB	12	.04
AAM	11,700.23	APB	12	.04
AAM	11,700.09	APB	12	.05
AAM	11,700.13	APB	12	.05
AAM	11,700.16	APB	12	.05
AAM	11,700.19	APB	12	.05
AAM	11,700.23	APB	12	.05
AAM	8400.06A9	APB	12	.05

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05G1A	APB	12	.05A
AAM	8400.05G1B	APB	12	.05B
AAM	8400.05G1C	APB	12	.05C
AAM	8400.05G1D	APB	12	.05D
AAM	8400.06A12	APB	12	.06
AAM	8400.06A12	APB	12	.07
AAM	8400.06A12	APB	12	.08
AAM	8400.05O1	APB	12	.10
AAM	8400.05O2	APB	12	.10
AAM	8400.06A8	APB	12	.16
AAM	8400.06A8	APB	12	.17
AAM	8400.05K4	APB	14	.12
AAM	8400.05K4	APB	14	16
AAM	8400.05K4	APB	14	.17
AAM	8400.05K4	APB	14	.18
AAM	8400.06E2	APB	15	
AAM	8400.05K4	APB	15	.19
AAM	8400.05N2	APB	15	.19
AAM	8500.03	APB	16	
AAM	8400.04E1	APB	16	.45
AAM	8400.04E1	APB	16	.46
AAM	8400.04E1	APB	16	.47
AAM	8400.04E1	APB	16	.48

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04E1A	APB	16	.50
AAM	8400.04E1A	APB	16	.51
AAM	8400.04E1A	APB	16	.52
AAM	8400.04E1A	APB	16	.53
AAM	8400.04E1A	APB	16	.54
AAM	8400.04E1A	APB	16	.55
AAM	8400.04E1A	APB	16	.56
AAM	8400.04E1A	APB	16	.57
AAM	8400.04E1A	APB	16	.58
AAM	8400.04E1A	APB	16	.59
AAM	8400.04E1A	APB	16	.60
AAM	8400.04E1A	APB	16	.61
AAM	8400.04K2	APB	16	.61
AAM	8400.04E1A	APB	16	.62
AAM	8400.04E1B	APB	16	.63
AAM	8400.04E1B	APB	16	.64
AAM	8400.04E1B	APB	16	.65
AAM	8400.04E2A	APB	16	.66
AAM	8400.04E2A	APB	16	.67
AAM	8400.04E2A	APB	16	.68
AAM	8400.04E2A	APB	16	.69

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04E2A	APB	16	.70
AAM	8400.04E2A	APB	16	.71
AAM	8400.04E2A	APB	16	.72
AAM	8400.04E2A	APB	16	.73
AAM	8400.04E2A	APB	16	.74
AAM	8400.04E2A	APB	16	.75
AAM	8400.04E2A	APB	16	.76
AAM	8400.04E2A	APB	16	.77
AAM	8400.04E2A	APB	16	.78
AAM	8400.04E2A	APB	16	.79
AAM	8400.04E2A	APB	16	.80
AAM	8400.04E2A	APB	16	.81
AAM	8400.04E2A	APB	16	.82
AAM	8400.04E2A	APB	16	.83
AAM	8400.04E2A	APB	16	.84
AAM	8400.04E2A	APB	16	.85
AAM	8400.04E2A	APB	16	.86
AAM	8400.04E2A	APB	16	.87
AAM	8400.04E2A	APB	16	.88
AAM	8400.04E2A	APB	16	.89

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04E2A	APB	16	.90
AAM	8400.04E2A	APB	16	.91
AAM	8400.04E2A	APB	16	.92
AAM	8400.04E2A	APB	16	.93
AAM	8400.04E2A	APB	16	.94
AAM	8400.04E2B	APB	16	.95
AAM	8400.04E2B	APB	16	.96
AAM	8500.03	APB	17	
AAM	8400.05I1	APB	17	.24
AAM	8400.05I2	APB	17	.24
AAM	8400.05I1	APB	17	.25
AAM	8400.05I1	APB	17	.26
AAM	8400.05I4	APB	17	.27
AAM	8400.05I4	APB	17	.28
AAM	8400.05I4	APB	17	.29
AAM	8400.05I4	APB	17	.30
AAM	8400.05I4	APB	17	.31
AAM	8400.05F1A	APB	18	.14
AAM	8400.05F1B	APB	18	.16
AAM	8400.05F1C	APB	18	.17
AAM	8400.05F2	APB	18	.19
AAM	8400.06A5A	APB	18	.19A

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.06A5B	APB	18	.19C
AAM	8400.06A5B	APB	18	.19D
AAM	11,700.23	APB	18	.20
AAM	8400.05F3	APB	18	.20
AAM	8400.07A1	APB	19	.07
AAM	8400.07B1	APB	19	.08
AAM	8400.07B2A	APB	19	.10
AAM	8400.07B2B	APB	19	.10
AAM	8400.07B2C	APB	19	.10
AAM	8400.07B2D	APB	19	.10
AAM	8400.07A2	APB	19	.11
AAM	8400.07B2F	APB	19	.12
AAM	8400.07B2E	APB	19	.13
AAM	8400.07B2E	APB	19	.14
AAM	10,240.140	APB	20	
AAM	8400.04C2	APB	20	.16
AAM	8400.04C1	APB	20	.17
AAM	8400.04C3	APB	20	.18
AAM	8400.04C3	APB	20	.19
AAM	8400.06E2	APB	20	.19C
AAM	8400.04C3	APB	20	.20
AAM	8400.04C3	APB	20	.21
AAM	8400.04C3	APB	20	.22

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04C3	APB	20	.23
AAM	8400.04C3	APB	20	.24
AAM	8400.04C3	APB	20	.25
AAM	8400.04C3	APB	20	.26
AAM	8400.04C4	APB	20	.27
AAM	8400.04C4	APB	20	.28
AAM	8400.06E2	APB	20	.33
AAM	8400.06E2	APB	20	.35
AAM	8400.04C5	APB	20	.36
AAM	8400.04C5	APB	20	.37
AAM	8400.05O5	APB	20	.37
AAM	8400.06E2	APB	20	.37
AAM	5400.160	APB	21	
AAM	8400.06A8	APB	21	.15
AAM	8400.05D4	APB	21	.16
AAM	8400.05I3	APB	21	.16
AAM	8400.05K3	APB	21	.16
AAM	8400.06A8	APB	21	.16
AAM	8400.04B1	APB	22	.08
AAM	8400.04B2	APB	22	.12
AAM	8400.04F1A	APB	22	.13
AAM	8400.05E3	APB	22	.13
AAM	8400.05G1D	APB	22	.13
AAM	8400.05I4	APB	22	.13
AAM	8400.06A3	APB	22	.13

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04B3	APB	22	.14
AAM	8400.04F7	APB	23	.14
AAM	8400.04F7	APB	23	.18
AAM	8400.06A5C	APB	24	.07
AAM	8400.06A5C	APB	24	.08
AAM	8400.06A5C	APB	24	.09
AAM	8400.06A5C	APB	24	.10
AAM	8400.06A11A	APB	25	.12
AAM	8400.06A11A	APB	25	.13
AAM	8400.06A11A	APB	25	.14
AAM	8400.06A11A	APB	25	.15
AAM	8400.06A11B	APB	25	.16
AAM	8400.06A11B	APB	25	.17
AAM	8400.06A11B	APB	25	.18
AAM	8400.05N5	APB	25	.19
AAM	8400.05K10A	APB	26	.20
AAM	8400.05K10A	APB	26	.21
AAM	8400.04I1	APB	29	
AAM	8400.04I1	APB	29	.18
AAM	8400.04I1	APB	29	.19
AAM	8400.04I1	APB	29	.20

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04I1	APB	29	.21
AAM	8400.04I1	APB	29	.22
AAM	8400.04I1	APB	29	.23
AAM	8400.04I1	APB	29	.24
AAM	8400.04I1	APB	29	.25
AAM	8400.04I1	APB	29	.26
AAM	8400.04I1	APB	29	.27
AAM	8400.04I2	APB	29	.28
AAM	8400.07B2D	APB	30	
AAM	8400.06C1A	APB	30	.08
AAM	8400.06C1B	APB	30	.08
AAM	8400.06C2	APB	30	.08
AAM	8400.06E2	APB	30	.09
AAM	8400.06D2	APB	30	.10
AAM	8400.06D2	APB	30	.11
AAM	8400.06D3	APB	30	.11
AAM	8400.06D4	APB	30	.11
AAM	8400.06D2	APB	30	.12
AAM	8400.06E2	APB	30	.12
AAM	8400.06C1A	APB	30	.13
AAM	8400.06C2	APB	30	.13
AAM	8400.06C1A	APB	30	.14
AAM	8400.06C2	APB	30	.14

Accounting Principles Board Opinions (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.06C1A	APB	30	.15
AAM	8400.06C2	APB	30	.15
AAM	8400.06C1A	APB	30	.16
AAM	8400.06C2	APB	30	.16
AAM	8400.06C1A	APB	30	.17
AAM	8400.06C2	APB	30	.17
AAM	8400.06C1A	APB	30	.18
AAM	8400.06C2	APB	30	.18
AAM	8400.06C4	APB	30	.18
AAM	8400.06C5	APB	30	.18
AAM	8400.05G2	APB	30	.18D
AAM	8400.06D1	APB	30	.19
AAM	8400.06D1	APB	30	.20
AAM	8400.06D1	APB	30	.21
AAM	8400.06D1	APB	30	.22
AAM	8400.06D1	APB	30	.23
AAM	8400.06D1	APB	30	.24
AAM	8400.06D5	APB	30	.26

The next page is 20,035.

Accounting Principles Board Statements

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04A2	APBS04	02	.10
AAM	8400.04A3	APBS04	02	.10
AAM	8400.06A1	APBS04	07	.198
AAM	8400.05K1	APBS04	07	.199
AAM	8400.05N1	APBS04	07	.199

The next page is 20,041.

Statements on Auditing Standards

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	2	SAS	01	220
AAM	4100.03		SAS	01	320
AAM	4100.02		SAS	01	320.12
AAM	4100.02		SAS	01	320.27
AAM	4100.02		SAS	01	320.28
AAM	4400.020		SAS	01	320.28
AAM	4100.02		SAS	01	320.29
AAM	4400.020		SAS	01	320.29
AAM	4400.020		SAS	01	320.30
AAM	4400.020		SSA	01	320.31
AAM	4400.020		SAS	01	320.32
AAM	4400.020		SAS	01	320.33
AAM	4400.020		SAS	01	320.34
AAM	4400.020		SAS	01	320.35
AAM	4400.020		SAS	01	320.36
AAM	4400.020		SAS	01	320.37
AAM	4400.020		SAS	01	320.38
AAM	4400.020		SAS	01	320.39
AAM	4400.020		SAS	01	320.40
AAM	4400.020		SAS	01	320.41
AAM	4400.020		SAS	01	320.42

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	4400.020	SAS	01	320.43
AAM	4400.020	SAS	01	320.44
AAM	4400.020	SAS	01	320.45
AAM	4400.020	SAS	01	320.46
AAM	4400.020	SAS	01	320.47
AAM	4400.020	SAS	01	320.48
AAM	4100.01	SAS	01	320.49
AAM	4100.02	SAS	01	320.49
AAM	4200.03	SAS	01	320.49
AAM	4200.04	SAS	01	320.49
AAM	4200.06	SAS	01	320.49
AAM	4200.07	SAS	01	320.49
AAM	4200.08	SAS	01	320.49
AAM	4100.01	SAS	01	320.50
AAM	4100.02	SAS	01	320.50
AAM	4200.03	SAS	01	320.50
AAM	4200.04	SAS	01	320.50
AAM	4200.06	SAS	01	320.50
AAM	4200.07	SAS	01	320.50
AAM	4200.08	SAS	01	320.50
AAM	4100.01	SAS	01	320.51
AAM	4100.02	SAS	01	320.51
AAM	4200.03	SAS	01	320.51
AAM	4200.04	SAS	01	320.51
AAM	4200.06	SAS	01	320.51
AAM	4200.07	SAS	01	320.51
AAM	4200.08	SAS	01	320.51
AAM	4100.01	SAS	01	320.52
AAM	4100.02	SAS	01	320.52
AAM	4200.03	SAS	01	320.52
AAM	4200.04	SAS	01	320.52
AAM	4200.06	SAS	01	320.52
AAM	4200.07	SAS	01	320.52
AAM	4200.08	SAS	01	320.52

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	4100.01	SAS	01	320.53
AAM	4100.02	SAS	01	320.53
AAM	4200.03	SAS	01	320.53
AAM	4200.04	SAS	01	320.53
AAM	4200.06	SAS	01	320.53
AAM	4200.07	SAS	01	320.53
AAM	4200.08	SAS	01	320.53
AAM	4100.01	SAS	01	320.54
AAM	4100.02	SAS	01	320.54
AAM	4200.03	SAS	01	320.54
AAM	4200.04	SAS	01	320.54
AAM	4200.06	SAS	01	320.54
AAM	4200.07	SAS	01	320.54
AAM	4200.08	SAS	01	320.54
AAM	4100.01	SAS	01	320.55
AAM	4100.02	SAS	01	320.55
AAM	4200.03	SAS	01	320.55
AAM	4200.04	SAS	01	320.55
AAM	4200.06	SAS	01	320.55
AAM	4200.07	SAS	01	320.55
AAM	4200.08	SAS	01	320.55
AAM	5400.050	SAS	01	320.56
AAM	5400.060	SAS	01	320.56
AAM	5400.070	SAS	01	320.56
AAM	5400.080	SAS	01	320.56
AAM	5400.050	SAS	01	320.57
AAM	5400.060	SAS	01	320.57
AAM	5400.070	SAS	01	320.57
AAM	5400.080	SAS	01	320.57
AAM	5400.050	SAS	01	320.58
AAM	5400.060	SAS	01	320.58
AAM	5400.070	SAS	01	320.58
AAM	5400.080	SAS	01	320.58
AAM	5400.050	SAS	01	320.59
AAM	5400.060	SAS	01	320.59
AAM	5400.070	SAS	01	320.59
AAM	5400.080	SAS	01	320.59
AAM	5400.050	SAS	01	320.60
AAM	5400.060	SAS	01	320.60
AAM	5400.070	SAS	01	320.60
AAM	5400.080	SAS	01	320.60

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	5400.050	SAS	01	320.61
AAM	5400.060	SAS	01	320.61
AAM	5400.070	SAS	01	320.61
AAM	5400.080	SAS	01	320.61
AAM	5400.050	SAS	01	320.62
AAM	5400.060	SAS	01	320.62
AAM	5400.070	SAS	01	320.62
AAM	5400.080	SAS	01	320.62
AAM	5400.050	SAS	01	320.63
AAM	5400.060	SAS	01	320.63
AAM	5400.070	SAS	01	320.63
AAM	5400.080	SAS	01	320.63
AAM	4200.09	SAS	01	320.64
AAM	5400.050	SAS	01	320.64
AAM	5400.060	SAS	01	320.64
AAM	5400.070	SAS	01	320.64
AAM	4200.09	SAS	01	320.65
AAM	5400.050	SAS	01	320.65
AAM	5400.060	SAS	01	320.65
AAM	5400.070	SAS	01	320.65
AAM	4200.09	SAS	01	320.66
AAM	5400.050	SAS	01	320.66
AAM	5400.060	SAS	01	320.66
AAM	5400.070	SAS	01	320.66
AAM	4200.09	SAS	01	320.67
AAM	5400.050	SAS	01	320.67
AAM	5400.060	SAS	01	320.67
AAM	5400.070	SAS	01	320.67
AAM	4200.09	SAS	01	320.68
AAM	5400.050	SAS	01	320.68
AAM	5400.060	SAS	01	320.68
AAM	5400.070	SAS	01	320.68
AAM	5400.170	SAS	01	331.14
AAM	5400.170	SAS	01	331.15
AAM	10,400.18	SAS	01	516
AAM	10,400.19	SAS	01	516
AAM	10,500.13	SAS	01	516
AAM	10,500.14	SAS	01	516

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,100.11		SAS	01	530
AAM	8200.03	1B	SAS	01	530
AAM	10,230.01		SAS	01	542.05
AAM	8200.03	8A	SAS	01	542.05
AAM	8200.03	8A	SAS	01	542.06
AAM	3350.02		SAS	01	543
AAM	8200.03	4C	SAS	01	543
AAM	10,210.050		SAS	01	543.09
AAM	3350.02		SAS	01	543.10
AAM	10,210.070		SAS	01	543.16
AAM	10,210.070		SAS	01	543.17
AAM	8200.03	8B	SAS	01	544.02
AAM	8200.03	8B	SAS	01	544.03
AAM	8200.03	8B	SAS	01	544.04
AAM	8200.03	8C	SAS	01	545
AAM	10,240.070		SAS	01	545.02
AAM	10,240.080		SAS	01	545.05
AAM	8200.03	6B	SAS	01	546
AAM	10,210.110		SAS	01	546.01

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	10,210.110	SAS	01	546.02
AAM	10,240.090	SAS	01	546.02
AAM	10,240.100	SAS	01	546.02
AAM	10,240.110	SAS	01	546.03
AAM	10,240.120	SAS	01	546.03
AAM	10,240.130	SAS	01	546.03
AAM	10,240.150	SAS	01	546.05
AAM	10,240.140	SAS	01	546.06
AAM	10,230.02	SAS	01	546.15
AAM	8200.03 8D	SAS	01	546.15
AAM	10,230.03	SAS	01	546.16
AAM	8200.03 8D	SAS	01	546.16
AAM	11,700.19	SAS	01	560.01
AAM	11,700.19	SAS	01	560.02
AAM	11,700.19	SAS	01	560.03
AAM	8400.04K1	SAS	01	560.03
AAM	11,700.19	SAS	01	560.04
AAM	8400.04K1	SAS	01	560.04
AAM	11,700.19	SAS	01	560.05
AAM	8400.04K2	SAS	01	560.05
AAM	11,700.19	SAS	01	560.06
AAM	8400.04K2	SAS	01	560.06
AAM	11,700.19	SAS	01	560.07
AAM	8400.04K1	SAS	01	560.07
AAM	8400.04K2	SAS	01	560.07
AAM	11,700.19	SAS	01	560.08

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	11,700.19		SAS	01	560.09
AAM	8400.04K2		SAS	01	560.09
AAM	8400.04K1		SAS	01	561.01
AAM	8400.04K2		SAS	01	561.01
AAM	8400.04K1		SAS	01	561.02
AAM	8400.04K2		SAS	01	561.02
AAM	8400.04K1		SAS	01	561.03
AAM	8400.04K2		SAS	01	561.03
AAM	8400.04K1		SAS	01	561.04
AAM	8400.04K2		SAS	01	561.04
AAM	8400.04K1		SAS	01	561.05
AAM	8400.04K2		SAS	01	561.05
AAM	8400.04K1		SAS	01	561.06
AAM	8400.04K2		SAS	01	561.06
AAM	8400.04K1		SAS	01	561.07
AAM	8400.04K2		SAS	01	561.07
AAM	8400.04K1		SAS	01	561.08
AAM	8400.04K2		SAS	01	561.08
AAM	8400.04K1		SAS	01	561.09
AAM	8400.04K2		SAS	01	561.09
AAM	10,210.020		SAS	02	.07
AAM	10,210.120		SAS	02	.07
AAM	10,210.130		SAS	02	.07
AAM	8200.03	3A	SAS	02	.07
AAM	10,100.06		SAS	02	.08
AAM	8200.03	1A	SAS	02	.08
AAM	8200.03	4I	SAS	02	.09
AAM	8200.03	5A	SAS	02	.10

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	5A	SAS	02	.11
AAM	3200.08		SAS	02	.12
AAM	8200.03	5A	SAS	02	.12
AAM	8200.03	4A	SAS	02	.13
AAM	8200.03	5A	SAS	02	.13
AAM	8200.03	4C	SAS	02	.14
AAM	11,700.04		SAS	02	.15
AAM	8200.03	6A	SAS	02	.15
AAM	11,700.04		SAS	02	.16
AAM	8200.03	6A	SAS	02	.16
AAM	11,700.04		SAS	02	.17
AAM	8200.03	6A	SAS	02	.17
AAM	8300.03	18	SAS	02	.17
AAM	8200.03	4D	SAS	02	.18
AAM	8200.03	6A	SAS	02	.18
AAM	8200.03	4D	SAS	02	.19
AAM	8200.03	6A	SAS	02	.19
AAM	8200.03	5B	SAS	02	.21
AAM	8200.03	5B	SAS	02	.22
AAM	8200.03	5B	SAS	02	.23
AAM	8200.03	5B	SAS	02	.24
AAM	8200.03	5B	SAS	02	.25
AAM	8200.03	5B	SAS	02	.26
AAM	8200.03	4I	SAS	02	.27

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	7B(1)	SAS	02	.29
AAM	8200.03	7B(1)	SAS	02	.30
AAM	8200.03	7B(1)	SAS	02	.31
AAM	8200.03	7A	SAS	02	.32
AAM	8200.03	7B(1)	SAS	02	.32
AAM	8200.03	7B(1)	SAS	02	.33
AAM	8200.03	7B(1)	SAS	02	.34
AAM	8200.03	7B(1)	SAS	02	.35
AAM	10,240.050		SAS	02	.36
AAM	10,245.070		SAS	02	.36
AAM	8200.03	7B(1)	SAS	02	.36
AAM	10,240.060		SAS	02	.37
AAM	8200.03	7B(1)	SAS	02	.37
AAM	8200.03	7B(1)	SAS	02	.38
AAM	10,240.020		SAS	02	.39
AAM	8200.03	5B	SAS	02	.39
AAM	8200.03	7B(1)	SAS	02	.39
AAM	10,240.010		SAS	02	.40
AAM	8200.03	7B(1)	SAS	02	.40
AAM	8200.03	7B(2)	SAS	02	.41
AAM	8200.03	7A	SAS	02	.42
AAM	8200.03	7B(2)	SAS	02	.42
AAM	10,220.01		SAS	02	.43
AAM	8200.03	7B(2)	SAS	02	.43

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	7B(2)	SAS	02	.44
AAM	8200.03	7A	SAS	02	.45
AAM	8200.03	7B(3)	SAS	02	.45
AAM	8200.03	7B(3)	SAS	02	.46
AAM	10,230.04		SAS	02	.47
AAM	8200.03	7B(3)	SAS	02	.47
AAM	8200.03	9	SAS	02	.48
AAM	4100.03		SAS	03	
AAM	11,700.03		SAS	05	.04
AAM	8200.03	4E	SAS	07	
AAM	5400.170		SAS	11	
AAM	8200.03	8H	SAS	11	.09
AAM	5400.440		SAS	12	
AAM	7300.01		SAS	12	
AAM	7300.02		SAS	12	
AAM	6500.650		SAS	12	.05
AAM	6500.650		SAS	12	.06
AAM	6500.650		SAS	12	.07
AAM	7300.03		SAS	12	.10
AAM	8200.03	8G	SAS	12	.12

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	8G	SAS	12	.13
AAM	8200.03	8G	SAS	12	.14
AAM	8200.03		SAS	14	
AAM	11,700.02		SAS	14	
AAM	8200.03	8B	SAS	14	.02
AAM	8200.03	10A	SAS	14	.02
AAM	8200.03	8B	SAS	14	.03
AAM	8200.03	10A	SAS	14	.03
AAM	11,700.02		SAS	14	.04
AAM	8200.03	8B	SAS	14	.04
AAM	8200.03	10A	SAS	14	.04
AAM	11,700.04		SAS	14	.04c
AAM	11,700.02		SAS	14	.05
AAM	11,700.03		SAS	14	.05
AAM	8200.03	8B	SAS	14	.05
AAM	8200.03	10A	SAS	14	.05
AAM	8200.03	8B	SAS	14	.06
AAM	8200.03	10A	SAS	14	.06
AAM	11,700.02		SAS	14	.07
AAM	8200.03	8B	SAS	14	.07
AAM	8200.03	10A	SAS	14	.07
AAM	8400.04A1		SAS	14	.07
AAM	10,260.010		SAS	14	.08
AAM	10,260.020		SAS	14	.08
AAM	10,260.030		SAS	14	.08
AAM	8200.03	8B	SAS	14	.08
AAM	8200.03	10A	SAS	14	.08
AAM	8200.03	10B	SAS	14	.09

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	10B	SAS	14	.10
AAM	8200.03	10B	SAS	14	.11
AAM	8200.03	9	SAS	14	.12
AAM	8200.03	10B	SAS	14	.12
AAM	8200.03	10B	SAS	14	.13
AAM	10,260.050		SAS	14	.14
AAM	10,260.060		SAS	14	.14
AAM	10,260.070		SAS	14	.14
AAM	10,260.080		SAS	14	.14
AAM	8200.03	10B	SAS	14	.14
AAM	8200.03	10C	SAS	14	.18
AAM	10,260.110		SAS	14	.19
AAM	10,260.120		SAS	14	.19
AAM	10,260.130		SAS	14	.19
AAM	8200.03	10C	SAS	14	.19
AAM	8200.03	10D	SAS	14	.20
AAM	8200.03	10D	SAS	14	.21
AAM	10,100.11		SAS	15	.02
AAM	8200.03	1B	SAS	15	.02
AAM	8200.03	4F	SAS	15	.02
AAM	10,210.010		SAS	15	.03
AAM	8200.03	3B	SAS	15	.03
AAM	8200.03	4B	SAS	15	.03
AAM	10,210.080		SAS	15	.05
AAM	10,240.030		SAS	15	.05
AAM	10,240.040		SAS	15	.05
AAM	10,240.160		SAS	15	.05
AAM	8200.03	4G	SAS	15	.05
AAM	8200.03	4F	SAS	15	.06

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,210.090		SAS	15	.07
AAM	10,210.100		SAS	15	.07
AAM	10,210.110		SAS	15	.07
AAM	10,240.040		SAS	15	.07
AAM	8200.03	4F	SAS	15	.07
AAM	8200.03	4E	SAS	15	.08
AAM	8200.03	4E	SAS	15	.09
AAM	8200.03	4E	SAS	15	.10
AAM	10,100.11		SAS	15	.11
AAM	8200.03	4E	SAS	15	.11
AAM	10,210.040		SAS	15	.12
AAM	10,210.060		SAS	15	.12
AAM	8200.03	4E	SAS	15	.12
AAM	7400.01		SAS	16	
AAM	8200.03	8I	SAS	16	.14
AAM	8200.03	8J	SAS	17	
AAM	8200.03	6A	SAS	17	.15
AAM	5400.040		SAS	19	
AAM	5400.460		SAS	19	
AAM	6500.650		SAS	19	
AAM	7400.01		SAS	19	.05
AAM	8200.03	8F	SAS	19	.11
AAM	7400.01		SAS	19	APP
AAM	10,250.040		SAS	20	
AAM	10,250.041		SAS	20	

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,250.060		SAS	20	
AAM	10,250.070		SAS	20	
AAM	3200.09		SAS	20	
AAM	4100.03		SAS	20	
AAM	4200.15		SAS	20	
AAM	5400.040		SAS	20	
AAM	5400.050		SAS	20	
AAM	5400.060		SAS	20	
AAM	5400.070		SAS	20	
AAM	5400.080		SAS	20	
AAM	5400.090		SAS	20	
AAM	8200.03	16	SAS	20	.04
AAM	4200.09		SAS	20	.05
AAM	10,250.040		SAS	20	.08
AAM	10,250.060		SAS	20	.08
AAM	10,250.070		SAS	20	.08
AAM	10,250.041		SAS	20	.09
AAM	8200.03	8L	SAS	21	
AAM	3100.03		SAS	22	
AAM	3100.06		SAS	22	
AAM	3100.07		SAS	22	
AAM	3100.08		SAS	22	
AAM	5100.02		SAS	22	
AAM	5200.01		SAS	22	
AAM	5200.05		SAS	22	
AAM	9100.03		SAS	22	
AAM	9100.05		SAS	22	
AAM	5100.02		SAS	22	.05
AAM	9100.03		SAS	22	.09
AAM	9100.03		SAS	22	.10
AAM	9100.03		SAS	22	.11

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	9100.03		SAS	22	.12
AAM	6500.050		SAS	23	
AAM	6500.690		SAS	23	
AAM	10,260.040		SAS	26	
AAM	10,400.18		SAS	26	
AAM	10,400.19		SAS	26	
AAM	10,500.13		SAS	26	
AAM	10,500.14		SAS	26	
AAM	3300.03	18	SAS	26	
AAM	10,270.01		SAS	26	.05
AAM	10,270.03		SAS	26	.07
AAM	10,270.04		SAS	26	.07
AAM	8200.03	2A	SAS	26	.08
AAM	8200.03	2A	SAS	26	.09
AAM	10,280.01		SAS	26	.10
AAM	8200.03	2A	SAS	26	.10
AAM	8200.03	4H	SAS	26	.14
AAM	8200.03	1B	SAS	26	.15
AAM	8200.03	4H	SAS	26	.15
AAM	10,270.02		SAS	26	.16
AAM	8200.03	1B	SAS	26	.16
AAM	8200.03	4H	SAS	26	.16
AAM	10,210.120		SAS	26	.17
AAM	10,210.130		SAS	26	.17
AAM	10,210.140		SAS	26	.17
AAM	8200.03	1B	SAS	26	.17
AAM	8200.03	4H	SAS	26	.17
AAM	8200.03	15C	SAS	27	

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,245.010		SAS	27	.08
AAM	10,245.020		SAS	27	.08
AAM	10,245.030		SAS	27	.08
AAM	10,245.080		SAS	27	.08
AAM	8200.03	14	SAS	27	.08
AAM	8200.03	15	SAS	27	.08
AAM	8200.03	15	SAS	27	.09
AAM	8200.03	15	SAS	27	.10
AAM	8200.03	14	SAS	27	.11
AAM	8200.03	15	SAS	27	.11
AAM	8200.03	15C	SAS	28	.04
AAM	8200.03	11B	SAS	29	.06
AAM	8200.03	11B	SAS	29	.07
AAM	8200.03	14	SAS	29	.07
AAM	8200.03	11B	SAS	29	.08
AAM	8200.03	11B	SAS	29	.09
AAM	8200.03	11B	SAS	29	.10
AAM	8200.03	11B	SAS	29	.11
AAM	10,245.040		SAS	29	.12
AAM	10,245.050		SAS	29	.13
AAM	10,245.060		SAS	29	.13
AAM	10,245.070		SAS	29	.14
AAM	10,245.040		SAS	29	.15
AAM	10,245.080		SAS	29	.15

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,245.090		SAS	29	.18
AAM	8200.03	11A	SAS	29	.20
AAM	8200.03	12B	SAS	29	.20
AAM	8200.03	12A	SAS	29	.21
AAM	10,250.040		SAS	30	
AAM	10,250.060		SAS	30	
AAM	10,250.070		SAS	30	
AAM	4200.13		SAS	30	
AAM	10,250.030		SAS	30	.37
AAM	10,250.040		SAS	30	.37
AAM	10,250.041		SAS	30	.37
AAM	8200.03	16A	SAS	30	.37
AAM	10,250.030		SAS	30	.38
AAM	10,250.040		SAS	30	.38
AAM	10,250.041		SAS	30	.38
AAM	8200.03	16A	SAS	30	.38
AAM	10,250.010		SAS	30	.39
AAM	10,250.020		SAS	30	.39
AAM	10,250.030		SAS	30	.39
AAM	10,250.040		SAS	30	.39
AAM	10,250.041		SAS	30	.39
AAM	10,250.050		SAS	30	.39
AAM	8200.03	16A	SAS	30	.39
AAM	10,250.020		SAS	30	.40
AAM	10,250.030		SAS	30	.40
AAM	10,250.040		SAS	30	.40
AAM	10,250.041		SAS	30	.40
AAM	8200.03	16A	SAS	30	.40
AAM	10,250.030		SAS	30	.41
AAM	10,250.040		SAS	30	.41
AAM	10,250.041		SAS	30	.41
AAM	8200.03	16A	SAS	30	.41
AAM	10,250.030		SAS	30	.42
AAM	10,250.040		SAS	30	.42

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,250.041		SAS	30	.42
AAM	8200.03	16A	SAS	30	.42
AAM	10,250.020		SAS	30	.43
AAM	10,250.030		SAS	30	.43
AAM	10,250.040		SAS	30	.43
AAM	10,250.041		SAS	30	.43
AAM	8200.03	16A	SAS	30	.43
AAM	10,250.030		SAS	30	.44
AAM	10,250.040		SAS	30	.44
AAM	10,250.041		SAS	30	.44
AAM	8200.03	16A	SAS	30	.44
AAM	10,250.030		SAS	30	.45
AAM	10,250.040		SAS	30	.45
AAM	10,250.041		SAS	30	.45
AAM	8200.03	16A	SAS	30	.45
AAM	10,250.030		SAS	30	.46
AAM	10,250.040		SAS	30	.46
AAM	10,250.041		SAS	30	.46
AAM	8200.03	16A	SAS	30	.46
AAM	8200.03	16B	SAS	30	.47
AAM	8200.03	16B	SAS	30	.48
AAM	10,250.030		SAS	30	.49
AAM	10,250.040		SAS	30	.49
AAM	8200.03	16B	SAS	30	.49
AAM	10,250.040		SAS	30	.50
AAM	8200.03	16B	SAS	30	.50
AAM	10,250.040		SAS	30	.51
AAM	8200.03	16B	SAS	30	.51
AAM	8200.03	16B	SAS	30	.52
AAM	8200.03	16B	SAS	30	.53

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8200.03	16C	SAS	30	.54
AAM	8200.03	16C	SAS	30	.55
AAM	8200.03	16C	SAS	30	.56
AAM	8200.03	16C	SAS	30	.57
AAM	8200.03	16C	SAS	30	.58
AAM	10,250.050		SAS	30	.59
AAM	8200.03	16C	SAS	30	.59
AAM	8200.03	16D	SAS	30	.60
AAM	8200.03	16D	SAS	30	.61
AAM	4100.03		SAS	30	.62
AAM	8200.03	5A	SAS	31	.22
AAM	8200.03	6A	SAS	32	.03
AAM	8200.03	15C	SAS	33	.06
AAM	8200.03	5B	SAS	34	.11
AAM	8200.03	6A	SAS	34	.11
AAM	8200.03	8M	SAS	34	.11
AAM	10,240.041		SAS	34	.12
AAM	8200.03	5B	SAS	34	.12
AAM	8200.03	8M	SAS	34	.12
AAM	8200.03	5B	SAS	34	.13
AAM	8200.03	8M	SAS	34	.13
AAM	8200.03	10	SAS	35	
AAM	8200.03	10B	SAS	35	

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,260.090		SAS	35	.06
AAM	10,260.100		SAS	35	.06
AAM	10,300.01		SAS	36	
AAM	10,300.02		SAS	36	
AAM	10,300.03		SAS	36	
AAM	10,300.04		SAS	36	
AAM	10,300.05		SAS	36	
AAM	10,100.11		SAS	36	.17
AAM	10,300.01		SAS	36	.18
AAM	10,300.02		SAS	36	.18
AAM	10,300.03		SAS	36	.19
AAM	10,300.04		SAS	36	.21
AAM	10,300.05		SAS	36	.22
AAM	10,300.06		SAS	36	.29
AAM	10,300.06		SAS	36	.24
AAM	8200.03	13	SAS	36	.24
AAM	10,300.06		SAS	36	.25
AAM	8200.03	13	SAS	36	.25
AAM	10,300.06		SAS	36	.26
AAM	8200.03	13	SAS	36	.26
AAM	10,300.06		SAS	36	.27
AAM	8200.03	13	SAS	36	.27
AAM	10,300.06		SAS	36	.28
AAM	8200.03	13	SAS	36	.28
AAM	10,300.06		SAS	36	.29
AAM	8200.03	13	SAS	36	.29

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,300.06		SAS	36	.30
AAM	8200.04	13	SAS	36	.30
AAM	3300.06		SAS	38	
AAM	4100.03		SAS	39	
AAM	5100.03		SAS	39	
AAM	6100.01		SAS	41	
AAM	10,550.01		SAS	42	.01
AAM	8200.03	17	SAS	42	.05
AAM	10,550.01		SAS	42	.06
AAM	10,550.02		SAS	42	.07
AAM	8200.03	18	SAS	42	.07
AAM	10,550.03		SAS	42	.08
AAM	8200.03	19	SAS	42	.09
AAM	8200.03	20	SAS	42	.09
AAM	10,245.100		SAS	42	.10
AAM	4100.03		SAS	43	
AAM	4100.01		SAS	43	.02
AAM	4100.02		SAS	43	.02
AAM	4100.03		SAS	43	.02
AAM	4200.03		SAS	43	.02
AAM	4200.04		SAS	43	.02
AAM	4200.06		SAS	43	.02
AAM	4200.07		SAS	43	.02
AAM	4200.08		SAS	43	.02
AAM	5400.050		SAS	43	.02
AAM	5400.060		SAS	43	.02
AAM	5400.070		SAS	43	.02
AAM	5400.080		SAS	43	.02

Statements on Auditing Standards (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	5400.170		SAS	43	.03
AAM	10,240.020		SAS	43	.06
AAM	8200.03	5B	SAS	43	.06
AAM	8200.03	7B1	SAS	43	.06
AAM	3300.06		SAS	43	.08
AAM	5100.03		SAS	43	.09
AAM	10,250.080		SAS	44	.35
AAM	8200.03	16D	SAS	44	.35
AAM	10,250.081		SAS	44	.41
AAM	8200.03	16D	SAS	44	.41
AAM	10,250.082		SAS	44	.46
AAM	8200.03	16D	SAS	44	.46
AAM	5400.040		SAS	45	
AAM	5400.400		SAS	45	
AAM	8200.038E		SAS	45	.02

The next page is 20,065.

Audit and Accounting Guides

SEQUENCED ON REFERENCE

SOURCE		REFERENCE
AAM	4100.04	*The Auditor's Study and Evaluation of Internal Control in EDP Systems*
AAM	4100.04	*Audits of Service-Center-Produced Records*
AAM	3300.10	*Personal Financial Statements Guide*
AAM	3300.11	*Personal Financial Statements Guide*
AAM	3300.12	*Personal Financial Statements Guide*
AAM	7400.03	*Personal Financial Statements Guide*
AAM	10,600.01	*Personal Financial Statements Guide*
AAM	10,600.02	*Personal Financial Statements Guide*
AAM	10,600.03	*Personal Financial Statements Guide*
AAM	10,600.04	*Personal Financial Statements Guide*
AAM	10,600.05	*Personal Financial Statements Guide*
AAM	10,600.06	*Personal Financial Statements Guide*
AAM	10,600.07	*Personal Financial Statements Guide*
AAM	10,600.08	*Personal Financial Statements Guide*
AAM	10,600.09	*Personal Financial Statements Guide*
AAM	10,600.10	*Personal Financial Statements Guide*
AAM	10,600.11	*Personal Financial Statements Guide*
AAM	10,600.12	*Personal Financial Statements Guide*
AAM	10,600.13	*Personal Financial Statements Guide*

Audit and Accounting Guides (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE
AAM	10,600.14	*Personal Financial Statements Guide*
AAM	10,600.15	*Personal Financial Statements Guide*
AAM	10,600.16	*Personal Financial Statements Guide*
AAM	10,600.17	*Personal Financial Statements Guide*

The next page is 20,071.

Auditing Interpretations

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	10,260.040	SAS	14	9621.04
AAM	10,260.140	SAS	14	9621.25
AAM	10,260.141	SAS	14	9621.25
AAM	10,260.142	SAS	14	9621.25
AAM	10,260.150	SAS	14	9621.31
AAM	10,260.151	SAS	14	9621.31
AAM	11,700.03	SAS	14	9621.34
AAM	11,700.03	SAS	14	9621.35
AAM	11,700.03	SAS	14	9621.36
AAM	11,700.03	SAS	14	9621.37
AAM	11,700.03	SAS	14	9621.38
AAM	11,700.03	SAS	14	9621.39
AAM	4200.13	SAS	17	9328.03
AAM	4200.13	SAS	17	9328.04
AAM	4200.13	SAS	17	9328.05
AAM	4200.13	SAS	17	9328.06
AAM	10,250.060	SAS	30	9642
AAM	10,250.070	SAS	30	9642

The next page is 20,081.

Statements on Standards for Accounting and Review Services

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,400.18		SAR	01	
AAM	10,500.13		SAR	01	
AAM	3200.01		SAR	01	.08
AAM	8300.03	1A	SAR	01	.14
AAM	8300.03	1C	SAR	01	.14
AAM	10,100.11		SAR	01	.15
AAM	8300.03	6A	SAR	01	.15
AAM	10,400.01		SAR	01	.17
AAM	10,400.04		SAR	01	.17
AAM	10,400.12		SAR	01	.17
AAM	10,400.13		SAR	01	.17
AAM	10,400.14		SAR	01	.17
AAM	10,400.15		SAR	01	.17
AAM	10,400.16		SAR	01	.17
AAM	10,400.18		SAR	01	.17
AAM	10,400.19		SAR	01	.17
AAM	8300.03	12	SAR	01	.19
AAM	8300.03	2A	SAR	01	.19
AAM	8300.03	2B	SAR	01	.19
AAM	8300.03	12	SAR	01	.20
AAM	8300.03	2C	SAR	01	.20
AAM	10,400.02		SAR	01	.21
AAM	10,400.03		SAR	01	.21
AAM	8300.03	12	SAR	01	.21
AAM	8300.03	2A	SAR	01	.21
AAM	10,280.01		SAR	01	.22
AAM	10,400.04		SAR	01	.22
AAM	8200.03	2B	SAR	01	.22
AAM	8300.03	4	SAR	01	.22
AAM	7400.02		SAR	01	.31

Statements on Standards for Accounting and Review Services (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8300.03	1B	SAR	01	.32
AAM	8300.03	1C	SAR	01	.32
AAM	10,100.11		SAR	01	.33
AAM	8300.03	6B	SAR	01	.34
AAM	10,500.01		SAR	01	.35
AAM	10,500.09		SAR	01	.35
AAM	10,500.10		SAR	01	.35
AAM	10,500.11		SAR	01	.35
AAM	10,500.12		SAR	01	.35
AAM	10,500.13		SAR	01	.35
AAM	10,500.14		SAR	01	.35
AAM	10,280.01		SAR	01	.38
AAM	8200.03	2B	SAR	01	.38
AAM	8300.03	4	SAR	01	.38
AAM	11,700.04		SAR	01	.39
AAM	8300.03	2D	SAR	01	.39
AAM	8300.03	3	SAR	01	.39
AAM	10,400.05		SAR	01	.40
AAM	10,400.06		SAR	01	.40
AAM	10,400.23		SAR	01	.40
AAM	10,500.02		SAR	01	.40
AAM	10,500.03		SAR	01	.40
AAM	10,500.04		SAR	01	.40
AAM	10,500.17		SAR	01	.40
AAM	11,700.04		SAR	01	.40
AAM	8300.03	2D(1)	SAR	01	.40
AAM	8300.03	2D(2)	SAR	01	.40
AAM	8300.03	2D(3)	SAR	01	.40
AAM	8300.03	3A	SAR	01	.40
AAM	8300.03	3B	SAR	01	.40
AAM	8300.03	3C	SAR	01	.40
AAM	11,700.04		SAR	01	.41
AAM	10,400.20		SAR	01	.43
AAM	10,500.15		SAR	01	.43

Statements on Standards for Accounting and Review Services (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,500.16		SAR	01	.43
AAM	8300.03	7A	SAR	01	.43
AAM	8300.03	7B	SAR	01	.43
AAM	8300.03	8	SAR	01	.49
AAM	7400.02		SAR	01	.55
AAM	8300.03	16A	SAR	02	
AAM	8300		SAR	02	.01
AAM	8300.03	9	SAR	02	02
AAM	8300.03	12	SAR	02	.05
AAM	8300.03	11	SAR	02	.06
AAM	8300.03	13	SAR	02	.08
AAM	8300.03	14	SAR	02	.08
AAM	10,400.11		SAR	02	.09
AAM	10,500.07		SAR	02	.09
AAM	8300.03	13	SAR	02	.09
AAM	10,500.08		SAR	02	.10
AAM	8300.03	13	SAR	02	.10
AAM	8300.03	14	SAR	02	.11
AAM	10,400.12		SAR	02	.12
AAM	8300.03	14	SAR	02	.12
AAM	8300.03	15	SAR	02	.14
AAM	10,400.13		SAR	02	.15
AAM	10,500.09		SAR	02	.15
AAM	8300.03	15	SAR	02	.15

Statements on Standards for Accounting and Review Services (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	8300.03	16	SAR	02	.16
AAM	8300.03	16	SAR	02	.17
AAM	10,400.15		SAR	02	.18
AAM	10,500.10		SAR	02	.18
AAM	8300.03	16	SAR	02	.18
AAM	10,400.14		SAR	02	.19
AAM	10,500.11		SAR	02	.19
AAM	8300.03	16	SAR	02	.19
AAM	8300.03	17	SAR	02	.25
AAM	8300.03	17	SAR	02	.26
AAM	10,400.16		SAR	02	.28
AAM	10,500.12		SAR	02	.28
AAM	8300.03	18	SAR	02	.28
AAM	8300.03	12	SAR	02	.29
AAM	10,400.17		SAR	02	.30
AAM	8300.03	12	SAR	02	.30
AAM	8300.03	10	SAR	02	.31
AAM	8300.03	10	SAR	02	.32
AAM	10,400.18		SAR	02	.33
AAM	10,500.13		SAR	02	.33
AAM	10,400.18		SAR	02	.34
AAM	10,400.19		SAR	02	.34
AAM	10,500.13		SAR	02	.34
AAM	10,500.14		SAR	02	.34
AAM	10,400.21		SAR	03	
AAM	10,400.22		SAR	03	
AAM	8300.03	2	SAR	03	

Statements on Standards for Accounting and Review Services (continued)

SEQUENCED ON REFERENCE

SOURCE			REFERENCE		
AAM	10,400.21		SAR	03	.03
AAM	8300.03	1A	SAR	03	.03
AAM	10,400.22		SAR	03	.04
AAM	8300.031A		SAR	05	.01
AAM	10,400.01		SAR	05	.02
AAM	10,400.02		SAR	05	.02
AAM	10,400.03		SAR	05	.02
AAM	10,400.04		SAR	05	.02
AAM	10,400.05		SAR	05	.02
AAM	10,400.06		SAR	05	.02
AAM	10,400.11		SAR	05	.02
AAM	10,400.12		SAR	05	.02
AAM	10,400.13		SAR	05	.02
AAM	10,400.14		SAR	05	.02
AAM	10,400.15		SAR	05	.02
AAM	10,400.16		SAR	05	.02
AAM	10,400.17		SAR	05	.02
AAM	10,400.18		SAR	05	.02
AAM	10,400.19		SAR	05	.02
AAM	10,400.21		SAR	05	.02

The next page is 20,091.

Accounting and Review Services Interpretations

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8300	SAR	01	9100.03
AAM	8300	SAR	01	9100.04
AAM	8300	SAR	01	9100.05
AAM	10,400.23	SAR	01	9100.38
AAM	10,500.17	SAR	01	9100.38
AAM	10,400.08	SAR	01	9100.41
AAM	10,500.05	SAR	01	9100.41
AAM	10,400.08	SAR	01	9100.42
AAM	10,500.05	SAR	01	9100.42
AAM	10,400.08	SAR	01	9100.43
AAM	10,500.05	SAR	01	9100.43
AAM	10,400.08	SAR	01	9100.44
AAM	10,500.05	SAR	01	9100.44
AAM	10,400.07	SAR	01	9100.45
AAM	10,400.08	SAR	01	9100.45
AAM	10,400.09	SAR	01	9100.45
AAM	10,400.10	SAR	01	9100.45
AAM	10,500.05	SAR	01	9100.45
AAM	10,500.06	SAR	01	9100.45

The next page is 20,101.

FASB Statements of Financial Accounting Standards

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.06A6	FAS	02	.12
AAM	8400.06A6	FAS	02	.13
AAM	8400.06A6	FAS	02	.14
AAM	8400.06A6	FAS	02	.15
AAM	8400.06A6	FAS	02	.16
AAM	8400.05K10B	FAS	04	.08
AAM	8400.06D6	FAS	04	.09
AAM	11,200.02	FAS	05	
AAM	11,700.09	FAS	05	
AAM	11,700.13	FAS	05	
AAM	11,700.16	FAS	05	
AAM	11,700.19	FAS	05	
AAM	11,700.23	FAS	05	
AAM	5400.440	FAS	05	
AAM	7300.01	FAS	05	
AAM	7300.02	FAS	05	
AAM	7400.01	FAS	05	
AAM	8400.05M2	FAS	05	
AAM	8400.04K1	FAS	05	.08
AAM	8400.05M3	FAS	05	.08
AAM	8400.04J1	FAS	05	.09
AAM	11,700.19	FAS	05	.10
AAM	8400.04J2	FAS	05	.10
AAM	11,700.19	FAS	05	.11
AAM	8400.04K2	FAS	05	.11
AAM	8400.04J3	FAS	05	.12

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05N6	FAS	05	.15
AAM	8400.04J4	FAS	05	.17
AAM	8400.04J5	FAS	05	.18
AAM	8400.05B2	FAS	05	.18
AAM	8400.05K1	FAS	05	.18
AAM	8400.05N7	FAS	05	.18
AAM	8400.04J5	FAS	05	.19
AAM	8400.05B2	FAS	05	.19
AAM	8400.05K1	FAS	05	.19
AAM	8400.05N7	FAS	05	.19
AAM	5400.260	FAS	05	.103
AAM	8400.05K6	FAS	06	
AAM	8400.05J2	FAS	06	.08
AAM	8400.05J2	FAS	06	.09
AAM	8400.05J2	FAS	06	.10
AAM	8400.05J2	FAS	06	.11
AAM	8400.05J2	FAS	06	.12
AAM	8400.05J2	FAS	06	.13
AAM	8400.05J2	FAS	06	.14
AAM	8400.05A1	FAS	06	.15
AAM	8400.05K6	FAS	06	.15
AAM	8400.04M1A	FAS	07	.10
AAM	8400.04M1B	FAS	07	.11

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04M1C	FAS	07	.12
AAM	8400.04M2	FAS	07	.13
AAM	8500.03	FAS	08	
AAM	8500.02	FAS	12	
AAM	8500.03	FAS	12	
AAM	8400.05C1A	FAS	12	.08
AAM	8400.05C1B	FAS	12	.08
AAM	8400.04F3	FAS	12	.09
AAM	8400.05C2	FAS	12	.09
AAM	8400.05C3	FAS	12	.09
AAM	6500.250	FAS	12	.11
AAM	8400.05C1C	FAS	12	.11
AAM	8400.05C1D	FAS	12	.11
AAM	8400.04F5	FAS	12	.12
AAM	8400.05C6A	FAS	12	.12A
AAM	8400.05C6B	FAS	12	.12B
AAM	8400.05C6C1	FAS	12	.12C
AAM	8400.05C6C2	FAS	12	.12C
AAM	8400.05C6C3	FAS	12	.12C
AAM	8400.06A4A	FAS	12	.12C
AAM	8400.06A4C	FAS	12	.12C
AAM	8400.06A4D	FAS	12	.12C
AAM	8400.05C7	FAS	12	.13
AAM	8400.04F3	FAS	12	.15
AAM	8400.05C1A	FAS	12	.15
AAM	8400.05C2	FAS	12	.15

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05C6B	FAS	12	.16A
AAM	8400.06A4B	FAS	12	.16B
AAM	8400.05C7	FAS	12	.17
AAM	8400.04F1C	FAS	12	.18
AAM	8400.04F4	FAS	12	.18
AAM	8400.05C2	FAS	12	.18
AAM	8400.05C3	FAS	12	.18
AAM	8400.04F1C	FAS	12	.19
AAM	8400.04F5	FAS	12	.19
AAM	8400.05C2	FAS	12	.19
AAM	8400.05C3	FAS	12	.19
AAM	8400.04F1C	FAS	12	.20
AAM	8400.04F6	FAS	12	.20
AAM	8400.05C2	FAS	12	.20
AAM	8400.05C3	FAS	12	.20
AAM	8400.05C4	FAS	12	.21
AAM	8400.05C5	FAS	12	.22
AAM	11,200.04	FAS	13	
AAM	11,600.18	FAS	13	
AAM	11,700.04	FAS	13	
AAM	8400.05H3	FAS	13	
AAM	8400.05L4	FAS	13	
AAM	8400.05L1B	FAS	13	.10
AAM	11,700.09	FAS	13	.16
AAM	11,700.13	FAS	13	.16
AAM	11,700.16	FAS	13	.16
AAM	11,700.19	FAS	13	.16
AAM	11,700.23	FAS	13	.16
AAM	8400.05L1A	FAS	13	.16A
AAM	8400.05L1B	FAS	13	.16A

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05L1C	FAS	13	.16A
AAM	8400.05L1D	FAS	13	.16A
AAM	8400.05L2	FAS	13	.16B
AAM	8400.05L3	FAS	13	.16C
AAM	8400.05L4	FAS	13	.16D
AAM	8400.05H1	FAS	13	.23A
AAM	8400.05H2	FAS	13	.23B
AAM	8400.05H3	FAS	13	.23C
AAM	8400.04F2	FAS	13	.31
AAM	8400.05H4	FAS	13	.41
AAM	8400.05H4	FAS	13	.42
AAM	8400.05H4	FAS	13	.43
AAM	8400.05H4	FAS	13	.44
AAM	8400.05H4	FAS	13	.45
AAM	8400.05H4	FAS	13	.46
AAM	8400.05H4	FAS	13	.47
AAM	8400.04N1	FAS	14	
AAM	8400.05K7	FAS	15	.25
AAM	8400.05K8	FAS	15	.26

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05D6	FAS	15	.40
AAM	8400.05D6	FAS	15	.41
AAM	5400.380	FAS	16	
AAM	8400.05O3	FAS	16	.11
AAM	8400.04C5	FAS	16	.11A
AAM	8400.05H3	FAS	17	
AAM	8400.05L4	FAS	17	
AAM	8500.02	FAS	19	
AAM	8500.03	FAS	19	
AAM	8400.04N1	FAS	21	
AAM	8400.06E2	FAS	21	
AAM	8400.04G2	FAS	21	.09
AAM	8400.05H3	FAS	22	
AAM	8400.05L4	FAS	22	
AAM	8400.05H3	FAS	23	
AAM	8400.05L4	FAS	23	
AAM	8400.04N1	FAS	24	
AAM	8500.02	FAS	25	
AAM	8400.05H3	FAS	26	
AAM	8400.05L4	FAS	26	
AAM	8400.05H3	FAS	27	
AAM	8400.05L4	FAS	27	

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05H3	FAS	28	
AAM	8400.05L4	FAS	28	
AAM	8400.05H3	FAS	29	
AAM	8400.05L4	FAS	29	
AAM	8400.05L1D	FAS	29	.12
AAM	8400.04N1	FAS	30	
AAM	8400.06B3	FAS	31	.07
AAM	8400.04C2	FAS	32	.10
AAM	8400.04C2	FAS	32	.11
AAM	8400.04C2	FAS	32 APP	
AAM	8400.04N2	FAS	33	
AAM	8500.03	FAS	34	
AAM	8400.05G3	FAS	34	.06
AAM	8400.05G3	FAS	34	.07
AAM	8400.05G3	FAS	34	.08
AAM	8400.05G3	FAS	34	.09
AAM	8400.05G3	FAS	34	.10
AAM	8400.05G3	FAS	34	.11
AAM	8400.05G3	FAS	34	.12
AAM	8400.05G3	FAS	34	.13
AAM	8400.05G3	FAS	34	.14
AAM	8400.05G3	FAS	34	.15
AAM	8400.05G3	FAS	34	.16
AAM	8400.05G3	FAS	34	.17

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.05G3	FAS	34	.18
AAM	8400.05G3	FAS	34	.19
AAM	8400.05G3	FAS	34	.20
AAM	8400.05G3	FAS	34	.21
AAM	8400.06A7	FAS	34	.21
AAM	8400.05G3	FAS	34	.22
AAM	8400.05G3	FAS	34	.23
AAM	8400.04L	FAS	35	
AAM	8500.02	FAS	35	
AAM	11,700.13	FAS	36	
AAM	7200.15	FAS	36	
AAM	8400.04L2	FAS	36	
AAM	8400.04L1	FAS	36	.07
AAM	8400.04L2	FAS	36	.08
AAM	8400.05I5	FAS	37	.04
AAM	8400.05M1	FAS	37	.04
AAM	8400.04E2A	FAS	38	
AAM	8500.02	FAS	39	
AAM	8500.02	FAS	40	
AAM	8500.02	FAS	41	
AAM	8400.05G3	FAS	42	.04
AAM	8400.05M4	FAS	43	.06
AAM	8400.05M4	FAS	43	.07
AAM	8500.02	FAS	44	
AAM	8500.02	FAS	45	

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8500.02	FAS	46	
AAM	8400.04J6	FAS	47	.07
AAM	8400.05K2	FAS	47	.10
AAM	8400.05N10	FAS	47	.10
AAM	8400.06A13	FAS	48	
AAM	8400.06A13	FAS	48	.06
AAM	8400.06A13	FAS	48	.07
AAM	8400.06A13	FAS	48	.08
AAM	8400.06A14	FAS	49	.03
AAM	8400.06A14	FAS	49	.04
AAM	8400.06A14	FAS	49	.05
AAM	8400.06A15	FAS	49	.08
AAM	8400.06A15	FAS	49	.09
AAM	8500.02	FAS	50	
AAM	8500.02	FAS	51	
AAM	8400.04H1	FAS	52	.30
AAM	8400.04H2	FAS	52	.31
AAM	8400.04H3	FAS	52	.32
AAM	8500.02	FAS	53	
AAM	8500.02	FAS	54	
AAM	8400.06E2	FAS	55	.07
AAM	11,100.02	FAS	57	
AAM	11,700.09	FAS	57	.02
AAM	11,700.16	FAS	57	.02
AAM	11,700.19	FAS	57	.02
AAM	8400.04G1D	FAS	57	.02
AAM	8400.04G3	FAS	57	.02

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04G1D	FAS	57	.03
AAM	8400.04G1D	FAS	57	.04
AAM	8400.04G3	FAS	57	.04
AAM	7400.01	FAS	57	.24
AAM	8400.05G3	FAS	58	.05
AAM	8400.05G3	FAS	58	.06
AAM	8400.05G3	FAS	58	.07
AAM	8500.02	FAS	59	
AAM	8500.02	FAS	60	
AAM	8500.02	FAS	61	
AAM	8400.05G3	FAS	62	.05
AAM	8500.02	FAS	63	
AAM	8400.05K10B	FAS	64	.04
AAM	8500.02	FAS	65	
AAM	8500.02	FAS	66	
AAM	8400.06A16	FAS	66	.05
AAM	8500.02	FAS	67	
AAM	8400.06A6	FAS	68	.14
AAM	8400.06A17	FAS	68	.14
AAM	8500.02	FAS	69	

FASB Statements of Financial Accounting Standards (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE		
AAM	8400.04N2	FAS	70	
AAM	8500.02	FAS	71	
AAM	8500.02	FAS	72	
AAM	8500.02	FAS	73	
AAM	8400.05M5	FAS	74	.02
AAM	8400.06A10	FAS	74	.03
AAM	8500.02	FAS	75	
AAM	8400.05K9	FAS	76	.03
AAM	8400.05K11	FAS	76	.03
AAM	8400.05D7	FAS	77	.09
AAM	8400.05J1D	FAS	78	.05
AAM	8400.05K12	FAS	78	.05

The next page is 20,121.

FASB Interpretations

SEQUENCED ON REFERENCE

SOURCE		REFERENCE	
AAM	8400.06A10	FASI 03	
AAM	8400.04E2A	FASI 04	
AAM	8400.06A6	FASI 04	
AAM	8400.06A6	FASI 06	
AAM	8400.04M1A	FASI 07	
AAM	8400.05J2	FASI 08	
AAM	8400.05A1	FASI 08	.03
AAM	8400.05K6	FASI 08	.03
AAM	8500.03	FASI 09	
AAM	8500.03	FASI 10	
AAM	8400.05C4	FASI 11	
AAM	8400.05C7	FASI 11	
AAM	8400.05C1B	FASI 12	
AAM	8400.04F1C	FASI 13	
AAM	8400.05C1B	FASI 13	
AAM	8400.05C2	FASI 13	
AAM	8400.05C7	FASI 13	
AAM	8400.05M3	FASI 14	
AAM	8500.03	FASI 15	
AAM	8400.05H3	FASI 19	
AAM	8400.05L4	FASI 19	
AAM	8400.05H3	FASI 21	
AAM	8400.05L4	FASI 21	
AAM	8400.05H3	FASI 23	
AAM	8400.05L4	FASI 23	

FASB Interpretations (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE	
AAM	8400.05H3	FASI 24	
AAM	8400.05L4	FASI 24	
AAM	8400.05G1E	FASI 25	
AAM	8400.06B4	FASI 25	
AAM	8400.05H3	FASI 26	
AAM	8400.05L4	FASI 26	
AAM	8400.05H3	FASI 27	
AAM	8400.05L4	FASI 27	
AAM	8400.05N5	FASI 28	
AAM	8400.06A5C	FASI 29	
AAM	8400.04I2	FASI 30	
AAM	8400.06E2	FASI 31	
AAM	8500.03	FASI 33	
AAM	8400.04J3	FASI 34	.01
AAM	8400.04J3	FASI 34	.02
AAM	8400.04J3	FASI 34	.03
AAM	8400.05F1	FASI 35	.02
AAM	8400.05F1	FASI 35	.03
AAM	8400.05F1	FASI 35	.04
AAM	8400.05F1	FASI 35	.05
AAM	8500.03	FASI 36	
AAM	8400.06C3	FASI 37	

The next page is 20,131.

FASB Technical Bulletins

SEQUENCED ON REFERENCE

SOURCE		REFERENCE	
AAM	8400.06A6	FAST79	02
AAM	8400.05A1	FAST79	03
AAM	8400.05K6	FAST79	03
AAM	8400.04N1	FAST79	04
AAM	8400.04N1	FAST79	05
AAM	8400.05D6	FAST79	06
AAM	8400.05D6	FAST79	07
AAM	8400.04N1	FAST79	08
AAM	8400.05H3	FAST79	10
AAM	8400.05L4	FAST79	10
AAM	8400.05H3	FAST79	11
AAM	8400.05L4	FAST79	11
AAM	8400.05H3	FAST79	12
AAM	8400.05L4	FAST79	12
AAM	8400.05H3	FAST79	13
AAM	8400.05L4	FAST79	13
AAM	8400.05H3	FAST79	14
AAM	8400.05L4	FAST79	14
AAM	8400.05H3	FAST79	15
AAM	8400.05L4	FAST79	15
AAM	8400.05H3	FAST79	16
AAM	8400.05L4	FAST79	16
AAM	8400.05H3	FAST79	17
AAM	8400.05L4	FAST79	17
AAM	8400.05H3	FAST79	18
AAM	8400.05L4	FAST79	18

FASB Technical Bulletins (continued)

SEQUENCED ON REFERENCE

SOURCE		REFERENCE	
AAM	8400.05C3	FAST79	19
AAM	8400.05F2	FAST79	19
AAM	8400.05K10A	FAST80	01
AAM	8400.04B2	FAST81	01
AAM	8400.06B4	FAST81	02
AAM	8400.04E2A	FAST81	02
AAM	8400.04L1D	FAST81	03
AAM	8400.04B2	FAST82	01
AAM	8400.06B3C	FAST82	01
AAM	8400.06D5B	FAST82	01
AAM	8400.05N5D	FAST82	02
AAM	8400.06A11B	FAST82	02
AAM	8400.05M1	FAST83	01

007250