

## Appendix 11A Problems

11A-1. A summary of the controls for the revenue and cash receipts cycle of Keystone Computers & Networks, Inc., appears on pages 442–454.

*Required:*

a. For the following three controls over sales indicate one type of error or fraud that the control serves to prevent or detect. Organize your solution as follows:

Control	Error or Fraud Controlled
1. Application controls are applied when customer orders are entered by the sales order clerk.	
2. The computer assigns numbers to sales invoices when they are prepared.	
3. Monthly statements are mailed to customers.	

b. For the following three controls over cash receipts indicate one type of error or fraud that the control serves to prevent or detect. Organize your solution as follows:

Control	Error or Fraud Controlled
1. Cash receipts are prelisted by the receptionist.	
2. The accounting manager reconciles control totals generated by the accounts receivable computer program.	
3. The computer summaries of cash collections and cash sales are reconciled to prelistings of cash receipts and cash deposits by the accounting manager.	

11A-2. As indicated on the control risk assessment working paper on page 454, the auditors identified two weaknesses in internal control over the revenue cycle of KCN. Describe the implications of each of the two weaknesses in terms of the type of errors or fraud that could result.

11A-3. As indicated on the working paper on page 452, the auditors decided to apply audit sampling to three controls for the revenue and cash receipts cycle.

*Required:*

a. Describe the characteristic that a control must possess in order to be tested with audit sampling.

b. Assume that the auditors decided to use audit sampling to test the operating effectiveness of the procedures for matching sales invoices with delivery receipts. Determine the required sample size, using the following parameters.

- Risk of assessing control risk too low—5 percent
- Tolerable deviation rate—15 percent
- Expected deviation rate—1 percent

c. Prepare a working paper similar to the one on page 452 documenting the planned audit procedure described in part (b).