

FREEFELLOW

FORMULA SHEET

CPA AUD

Auditing & Attestation

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FORMULAS

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TOPICS

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ETHICS, PROFESSIONAL RESPONSIBILITIES AND GENERAL PRINCIPLES

1 item

Independence: financial interest threshold

Direct financial interest of ANY amount impairs independence.

Indirect financial interest: impairs independence only if material to the covered member.

Covered member = professional on engagement team, firm, or network firm.

ASSESSING RISK AND DEVELOPING A PLANNED RESPONSE

5 items

Audit risk model

$$AR = IR \times CR \times DR$$

IR=inherent, CR=control, DR=detection.

Set AR, assess IR + CR, solve for required DR.

Detection risk (solved)

$$DR = \frac{AR}{IR \times CR}$$

Higher IR or CR → lower acceptable DR → more or better substantive procedures required.

Tolerable misstatement

Tolerable Misstatement ≤ Planning Materiality

Typically set at 50–75% of overall planning materiality per PCAOB/AICPA guidance.

Used to evaluate whether account-level misstatements are material.

Materiality benchmarks (planning)

0.5–1% of revenues or assets

5–10% of pre-tax NI

1–2% of equity

Smaller entities: 2–5% of gross profit or 0.5% of assets.

Risk of material misstatement (RMM)

$$RMM = IR \times CR$$

Assessed at financial statement level and assertion level.

Higher RMM → more responsive substantive procedures (nature, timing, extent).

PERFORMING FURTHER PROCEDURES AND OBTAINING EVIDENCE

5 items

Attribute sampling: sample size formula

$$n = \frac{R}{TDR - EPER}$$

R = reliability factor (from table based on confidence level and expected deviations), TDR = tolerable deviation rate, EPER = expected population deviation rate.

Reliability factors (attribute sampling)

95% conf: 0 dev → R=3.0; 1 dev → R=4.75.

90% conf: 0 dev → R=2.31; 1 dev → R=3.89.

Higher conf → larger R → larger sample.

Projected misstatement (MUS/variables sampling)

$$\text{Projected Misstatement} = \frac{\text{Sample Misstatement}}{\text{Sample Book Value}} \times \text{Population Book Value}$$

If projected misstatement + known misstatements > tolerable misstatement, consider adjusting or expanding.

Upper deviation rate (attribute sampling)

$$UDR = \frac{R_{\text{actual deviations}}}{n}$$

From reliability factor table at desired confidence level given actual deviations found.

If UDR > TDR, internal control cannot be relied upon; increase substantive testing.

Accounts receivable turnover and DSO

$$A/R \text{ Turnover} = \frac{\text{Net Credit Sales}}{\text{Avg A/R}}$$

$$DSO = \frac{365}{A/R \text{ Turnover}}$$

Analytical procedure; deviations signal potential misstatement.

FORMING CONCLUSIONS AND REPORTING

1 item

Audit opinion thresholds

Unmodified: no material misstatement, full scope.

Qualified: material but not pervasive OR scope limit.

Adverse: material AND pervasive (GAAP violation).

Disclaimer: scope limit too severe — no opinion.

