Question 3

Calculation of adjusted monetary precision

Error value	J-factor	Item value	Estimated value of error
Errors of overstatement			
(1) 1 600	1 000	1 700	1 600
(2) 200	1 000	500	400* √
1 800 √			

***** Estimated value of error = J-factor/Item value x Error value = 1000/500 x 200 = 400

Error value	J-factor	Item value	Estimated value of error
Errors of understatement			
(1) 840	1 000	1 100	840
(2) 195	1 000	150	1 300 * √
1 035 √			

***** Estimated value of error = J-factor/Item value x Error value = 1000/150 x 195 = 1 300

1 800 – 1 035 = 765 √

Estimated value	Precision adjustment factor	Adjusted estimated value
Overstatement		
1 600	----	1 600
(1) 400	1.75 ½	700
		2 300 √
Understatement		
(2) 840	----	840
(1) 1 300	0.05 ½	65
		905 √
		1 395 √

Please Note: Precision adjustment factors = obtained from Table F in your study guide

Monetary precision required R x J = 3.0 x 1 000 = R3 000 √

Adjusted monetary precision 3 000 + 1 395 - 765 = R3 630 √

Conclusion As the required monetary precision is exceeded, more comprehensive audit steps will have to be carried out.√