**(Mt. Hood Furniture—PPS sampling problem)** You have been assigned the task of testing the accuracy of the final inventory compilation for Mt. Hood Furniture. You may assume that you have separately observed the inventory and that you are satisfied that the inventory was accurately counted. However, you need to test that quantities were accurately transcribed to the final accumulation and valuation of inventory and that the inventory is correctly priced and accumulated. The table beginning on [**page 617**](https://jigsaw.vitalsource.com/books/9781118558652/epub/OPS/loc_017.xhtml#eid44114) presents the audited values associated with Mt. Hood’s pricing and accumulation of all items in inventory.

The book values will be given to you by your professor. You may assume that you have performed the tests to determine the proper pricing for raw materials, work in process, and finished goods. The student should understand that the auditor will normally obtain this information only for the items included in the sample.

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**Required**

* 1.Identify the audit objectives that are accomplished by this test.
* 2.Determine sample size based on the following audit judgments.
  + a. Tolerable misstatement is assessed at $325,000.
  + b. The risk of incorrect acceptance is assessed at 37 percent.
  + c. Anticipated misstatement is assessed at $100,000.
* 3.Develop a scenario that is consistent with setting the risk of incorrect acceptance at 37 percent.
* 4.Select a PPS sample of the above inventory population using the sample size determined in (2) above.
* 5.Explain the tests that you would perform to test the correctness of pricing of raw materials, work in progress, and finished goods. (The student may wish to consult [**Chapter 16**](https://jigsaw.vitalsource.com/books/9781118558652/epub/OPS/loc_021.xhtml#eid57738).)
* 6.Determine the amount of projected population misstatement based on your sample.
* 7.Considering your quantitative and qualitative results, develop a statistical conclusion and an audit conclusion based on your sample.

Directions: Answer all questions as shown below in the case study. Each answer should be at least 2 paragraphs. Include the questions on your paper; submit as a Word document.