10 Steps to Calculating the Lower Limit of Individually Significant Items

Following is an example of a calculation of the lower limit for individually significant items applying the concepts in the article for the accounts receivable account classification. In accordance with the auditing standards, all percentages are based on an auditor's professional judgment. Tolerable misstatement is abbreviated as TM; the lower limit for individually significant items is abbreviated as LL of ISIs.

1. The higher of total revenues or total assets is sales $1,500,000

2. A common materiality percentage (a sliding table based on volume of the base may be used) $x 1%

3. Planning materiality at the financial statement level $15,000

4. TM percentage selected assuming risk is moderate $x 75%

5. Tolerable misstatement at the financial statement level $11,250

6. LL of ISIs percentage selected assuming risk is slightly less than high $x 25%

7. Lower limit of individually significant items--financials $2,800 (A)

8. TM at account classification level assuming risk is moderate to low:
   - TM at financial statement level $11,250
   - Percentage selected assuming risk is moderate to low $x 80%
   - Tolerable misstatement for accounts receivable $9,000

9. LL of ISIs percent selected assuming risk is moderate $x 50%

10. Lower limit for individually significant items for accounts receivable $4,500 (B)

Notes:

(A) The lower limit for individually significant items at the financial statement level is used for generally determining which accounts on the trial balance to consider for auditing procedures, unusual transactions from reading general ledger account activity and when proposed adjusting journal entries may be necessary.

(B) The lower limit for individually significant items at the account classification or assertion level for accounts receivable, as an example, may be used to guide the selection of accounts for positive confirmation in sampling and non-sampling plans and for determining which other significant accounts, notes and loans to select for applying auditing procedures.