

## EXHIBIT

### Sample Documentation Related to “Expectations” in Review Engagements

A CPA is engaged to review financial statements of a company that manufactures and sells products for use by the U.S. military. Because of various conflicts throughout the world involving the U.S. military, the CPA, in working with the client, reasonably expects that revenues of the company will increase during the current year, when compared to the past few years. The following factors should affect the relationship between current-year and prior-year financial statement amounts:

- Because of the increase in military spending, and because the company has a contract with the U.S. government to provide certain items for use by the military, there is an expectation that sales should increase in the range of 10%–15%.
- Because of “timing” related to collection of receivables recorded through the increased sales, the expectation is that receivables should increase in the range of 7%–9%.
- Because inventory for use by the military is shipped almost immediately upon completion of production, there is no expectation related to a significant increase in inventory as of the financial statement date. Inventory is expected to increase by no more than 5% from the previous year.
- Because much of the accelerated inventory production will be funded through operations, there is no expected parallel increase in borrowings and related interest costs. However, the company will draw on an established line of credit so that current-year notes payable, and the related interest expense, should increase in the range of 4%–6%.

*Note: The nature and extent of analytical tests that will be performed in each review engagement will be determined using the CPA’s professional judgment. In this case, the CPA most likely would perform a trend analysis related to revenue, cost of sales, gross margin, selling expenses, and interest expense. The CPA might also consider certain balance sheet-related amounts and ratios associated with the increase in receivables and notes payable, along with an analysis of a receivables and inventory turnover. The above documentation would be adequate for documenting expectations used in analytical tests. After performing the analytical tests, results that are “outside” the expectations developed by the CPA should result in the CPA’s inquiring of management about “unexpected” amounts/ratios. Results of such discussions with management should be documented as well in review engagement workpapers.*