

HOMEWORK

Answer the following independent audit cases on a separate sheet of paper. Show your computations.

Audit Case 1 (5 items x 5 points)

DEBBY CORP., a manufacturer of computer parts, has been experiencing growth in the demand for its products over the last several years. This prompted the company to obtain additional manufacturing facilities. A real estate firm located an available factory near Debby's production facility, and Debby agreed to purchase the factory and used machinery from Que Company on October 1, 201A. Renovations were necessary to convert the factory for Debby's manufacturing use.

The terms of the agreement required Debby to pay Que P1,500,000 when renovations started on January 1, 202B, with the balance to be paid as renovations were completed. The overall purchase price for the factory and machinery was P12,000,000. The building renovations were contracted to Malibay Construction Company at P3,000,000. The payments made as renovations progressed during 202B are shown below. The factory was placed in service on January 1, 202C.

	Que	Malibay
January 1	P1,500,000	
April 1	2,700,000	P900,000
October 1	3,300,000	900,000
December 31	<u>4,500,000</u>	<u>1,200,000</u>
	<u>P12,000,000</u>	<u>P3,000,000</u>

On January 1, 202B, Debby obtained a 2-year, P3 million loan with a 12% interest rate to finance the renovation of the acquired factory. This is Debby's only outstanding loan during 202B.

Debby's policy regarding purchases of this nature is to use the appraisal value of the land for book purposes and prorate the balance of the purchase price over the remaining items. The building had originally cost Que P9,000,000 and had a net book value of P1,500,000, while the machinery originally cost P3,750,000 and had a net book value of P1,200,000 on the date of sale. The land was recorded on Que's books at P1,200,000.

The following values were determined based on appraisal conducted by Independent appraisers at the time of acquisition:

Land	P8,700,000
Building	3,150,000
Machinery	1,350,000

Gin G. Neer, Debby's chief engineer, estimated that the renovated plant would be used for 15 years, with an estimated residual value of P900,000. Neer estimated that the productive machinery would have a remaining useful life of five (5) years and a residual value of P90,000. Debby's depreciation policy is to apply the 200% declining balance method for machinery and the 150% declining balance method for the plant. One-half year's depreciation is taken in the year the plant is placed in service, and the one-half (1/2) year is allowed when the property is disposed of or retired.

Required:

Determine the amounts to be recorded on the books of Debby Corp. as of December 31, 202B, for each of the following properties:

1. Land
2. Building
3. Machinery

Calculate the 202C depreciation expense for each of the following properties.

4. Building – Depreciation Expense
5. Machinery – Depreciation Expense

Audit Case 2 (1 item)

You have been asked to carry out the audit of the property, plant, and equipment of Simons Engineering Limited for the year ended March 31. The draft accounts show the following movements on non-current assets in the year:

During the current year ended March 31, the company purchased some land and built a new factory, which was completed during the year.

The company maintains a PPE register for all information related to property plant and equipment, and it depreciates its fixed assets at the following rates:

- Land and buildings – 2% on cost
- Plant and machinery – 10% on cost
- Motor vehicles – 25% on cost

It is the company's policy to charge a full year's depreciation on an asset in the year of purchase and no depreciation in the year of sale.

Required:

1. If the company did not maintain a PPE register, explain the problems you would experience and how it would affect your audit work and opinion.

Rubric for problem solving:

Performance Indicators	Points
Correct accounts and amounts used	3
Computed final amounts are correct/balanced	2
Total	5

Rubric for short answer:

CRITERIA	PERFORMANCE INDICATORS	POINTS
Content	Provided pieces of evidence, supporting details, and factual scenarios	6
Organization of ideas	Expressed the points in a clear and logical arrangement of ideas	4
	TOTAL	10