

Financial audit and laramie wire manufacturing assignment



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Case Study Assignment Prepare written answers to the following case from Auditing Cases: An Interactive Learning Approach, (3rd edition), by Beasley, Buckless, Glover, and Prawitt: Case 8. 1: Laramie Wire Manufacturing: Using Analytical Procedures in Audit Planning Requirements 1. 1. Perform analytical procedures to help you identify relatively risky areas 2. indicate the need for further attention during the audit, if any. 2.

Focus specifically on each of the five management assertions (existence or occurrence, completeness, valuation or allocation, rights and obligations, and presentation and disclosure) for the inventory account. Focus specifically on each of the five management assertions (existence or occurrence, completeness, valuation or allocation, rights and obligations, and presentation and disclosure) for the inventory account. 1. Perform analytical procedures to help you identify relatively risky areas that indicate the need for further attention during the audit, if any. 2.

Focus specifically on each of the five management assertions (existence or occurrence, completeness, valuation or allocation, rights and obligations, and presentation and disclosure) for the inventory account. Link any risks you identified for this account in question 1 to the related management assertion. Briefly explain identified risks or issues for the inventory account that require further attention, if any. Background About Laramie Wire MFG. You are a senior auditor assigned to the Laramie Wire Manufacturing audit. This is the first year your firm has conducted the audit for this particular client.

In fact, although Laramie has previously engaged accountants to perform limited review services for the purpose of obtaining bank loans, this is the first year Laramie has contracted for a full-scale audit of its financial statements. The company is planning an initial public offering (IPO) of its stock in the next two or three years and has hired your firm to conduct its first financial statement audit in preparation for the upcoming IPO. Laramie is a medium-sized company that buys copper rod and plastic materials used to make insulated copper wiring.

Laramie operates out of a single building complex totaling 500, 000 square feet, which includes office space (3%), production area (57%), shipping and receiving (15%), and finished goods and raw materials inventory warehousing (25%). Laramie supplies insulated copper wiring in the northeastern part of the United States. The company has a good reputation for quality products and has had a good working relationship with its outside accountants over the past 10 years. You have been assigned responsibility for auditing Laramie's inventories.

You are in the planning stages of the audit, and you are preparing to conduct some analytical procedures to help you identify risk areas that may require further attention. Your staff assistant assembled information relating to inventories and other items, including a brief description of Laramie's production and inventory areas. Because your assistant is new, he is usually not very good about weeding out irrelevant information, so you may not need to use every piece of information he has provided. The information is listed below.

2005	2004 Sales	\$8, 450, 000	\$8, 150, 000
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Cost of Sales \$6, 242, 500 \$6, 080, 000 Finished Goods Inventory \$1, 654, 500 \$1, 175, 500 (Approx. 300 million ft. –2002) Copper Rod Inventory \$2, 625, 000 \$1, 650, 000 (Approx. 5. 9 million lbs. – 2002) Plastics Inventory \$ 224, 500 \$ 182, 000 (Approx. 1. 1 million lbs. –2002) Accounts Payable (for Inv. purchases) \$ 450, 000 \$ 425, 000 Days Purchases in A/P 43. 6 days 44. 2 days Days Sales in Receivables 56. 3 days 48. 4 days Market Price of Insulated Wire (per foot) \$ 0. 008 \$ 0. 09 Market Price of Copper Rod (per lb.) \$ 0. 480 \$ 0. 480 Market Price of Plastics (per lb.) \$ 0. 120 \$

0. 190 Laramie makes several different gauges and types of insulated copper wire for use in applications ranging from residential telephone and electrical wiring to industrial-grade, high-voltage power cables. The production area is divided into three areas, with each area specializing in a particular product group, including residential products, industrial products, and special-order products. Production is done in batches according to orders placed with the firm.

For each batch, machinery is adjusted and calibrated according to the type and size of product to be manufactured, and the size of the batch depends on the amount of product needed. Average machine setup time from start to finish is approximately six hours, which is slightly below the industry average. The different types of products Laramie manufactures all use similar raw materials, so raw materials inventory is stored in a single location, divided only into copper and plastics. Finished goods (i. e. , insulated copper wire) are stored on large stackable spools of various sizes, with approximately 500, 000 feet of wire per spool.

Copper rod inventory is stored on pallets, which are not stackable. Each pallet measures 6 feet by 6 feet, stands 5 feet tall, and holds 1,500 pounds of copper rod. Plastics inventory is stored in 4-foot-tall stackable barrels, with approximately 350 lbs. of plastic per barrel. The raw materials inventory storage area is located near the shipping and receiving area for convenience. Inbound and outbound shipments of inventory are trucked to the nearest rail yard, from which they are distributed around the northeastern region of the U.

S. A single 18-wheeler can carry up to 15 pallets of copper rod, 40 barrels of plastics, or 24 spools of finished insulated copper wire. Laramie's production process is semi-automated, but it still requires a relatively large amount of labor. Thus, Laramie's conversion costs are fairly evenly divided between direct labor and factory overhead. Overhead consists primarily of the costs of the production facilities and depreciation and maintenance on the machinery. Laramie uses a hybrid product costing system (i. e. a system that combines characteristics of both job-order and process costing systems) to accommodate both the continuous and homogeneous nature of the manufacturing process and the fact that production runs are performed in separately identifiable batches. In accordance with the relatively homogenous nature of Laramie's products, overhead is allocated from a single cost pool based on a combination of machine and direct labor hours. As the insulated copper wire product is completed, it is rolled onto large spools of various sizes, usually in lengths of about 500,000 linear feet.

These spools of finished goods inventory are stored next to the raw materials inventory near the facility's eight loading and unloading docks. In many <https://assignbuster.com/financial-audit-and-laramie-wire-manufacturing-assignment/>

cases the inventory is produced in response to specific customer orders received, in which case the spools are tagged for shipment to customers according to date requested. Inventory that has been produced without a customer order to provide a “ cushion” for rush orders is stored toward the far end of the finished goods storage area, away from the shipping area. The inventory and production areas are well organized and seem to flow smoothly.

Machines appear to be well maintained. A cursory visual examination of inventories reveals no problems. Two spools in the finished goods area were tagged as being of the type of residential wiring recently banned by federal safety guidelines. These spools are clearly marked, and the inventories supervisor indicated they are to be destroyed within the next week.

Procedures and records for tracking materials upon arrival, through the production process, and into finished goods and shipping, appear to be well designed.