

Why would the owners of lakeside essay sample

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1. Why would the owners of Lakeside, as well as the company's banks, require that an annual audit may be made by an independent CPA firm?

Auditing in general, is necessary because of the existence of Information risk or the risk of unreliable information. Owners of lakeside may own the company but they are not closely involved in managing the business with the exception of Rogers, the only owner involved actively in the business' day to day operations. So, an independent audit for non-managing owners provides a trusted second opinion on lakeside's financial statements and, in turn, gives some, insight as to how well it is being run. Independent audit in turn makes the financial statements more credible and reliable source of information for both owners and creditors about the managerial efficiency and effectivity of the company's operations. Audited financial statements would also help reduce the risk of material misstatement in the financial statements, risk of fraud and misappropriation of assets, as well the risk of inefficient management due to insufficient information on its operations. Independent audit helps provide credible and reliable information.

Creditors requires reliable FS in order to assess the financial status of the company in order to identify its ability to satisfy their claims. The reason that there needs to be an independent auditor is so that they can remain unbiased. It could potentially make them less independent if they are auditing both Lakeside and the bank in which Lakeside is taking loans from. The auditing firm needs to stay independent in mind and appearance and this may be an issue when auditing both. An independent annual audit can provide credibility to information, and this could be very helpful for decision making. In this specific case, the owner of the Lakeside requires an

independent CPA firm to perform an annual audit because the owner wants to show the public a “good-look” of its financial statements; since he would like to receive more capital by making his company public. In addition, good-looking financial statements of the company could provide good credit from the bank.

To the lakeside company, the owner would like to provide audited financial statement to the bank to obtain the loan and receive the best possible interest rate. On the other hand, a decision by a bank loan officer about whether to make a loan to Lakeside Company and what rate of interest adequately compensates the bank for the level of risk assumed depends on an independent auditing report about lakeside’s financial reports. An auditing report about the company is reliable for the bank; it can significantly reduce the level of information risk. If the loan officer has assurance from the auditors that the company’s financial statements are prepared in accordance with GAAP, he or she will have more confidence in his or her assessment of business risk. By reducing information risk, the audit reduces the overall risk to the bank. 2. Can an accounting firm...

Abernethy and Chapman performed a series of advertisement campaigns through advertisements published in the local newspaper and other prominent periodicals. They also provide a monthly newsletter describing the current accounting and taxation events that is distributed to clients and other business leaders. Cost of advertising campaign done by Abernethy and Chapman amounted to \$53, 000 and has shown additional revenues. Initial beliefs is that advertising of the CPA profession is viewed as unprofessional. Since 1. larger firms would benefit from advertising at the expense of smaller
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firms [3]; (2) advertising of fees would lead to competitive bidding between firms and ultimately result in compromising the quality of accounting services [4] – otherwise advertising might increase fees [5]; and (3) advertising would create a highly competitive and commercial approach within the profession. But based on PRC-BOA resolution No. 126, Series of 2008, certain forms of advertisements are now allowed. Regarding advertisements done by Abernethy and Chapman such announcements should be limited to a bare statement of facts and should remain objective avoiding any self-laudatory statements.

Advertising made by Abernathy and Chapman can yield benefits which was proven by Lakeside Company's interest in the firm. But, I believe that the management of the company should not rely on advertisements in selecting its auditors but should rely on the existing reputation and credentials of the firm. All companies need to have some type of marketing strategy in place in order to be successful and generate new sources of revenue. In today's day in age of technology, it is easier and cheaper than ever to advertise your services for a fraction of the cost. Abernethy & Chapman have the right idea by sending out newsletters to their existing clients. Word of mouth is one of the fastest ways to grow your clientele. However, I do not believe that a company should select its auditors based solely on the firm's advertisements. In the accounting world, one's qualifications, expertise, and reputations are extremely important aspects and should all be taken into consideration when choosing a firm. 3. This case implies...

According to our general auditing standards, the auditor must have adequate technical training and proficiency to perform the audit. The auditor must

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obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the FS whether due to error or fraud and to design the nature, timing, and extent of further audit procedures. In short, the auditor must have an existing expertise as to the client entity in order to be able to perform the audit or to be able to form an opinion on the entity. Why??

Lack of expertise by Abernethy and Chapman may be another risk fraud factor for Rogers. Abernethy and Chapman may not possess the ability to conduct a detailed and thorough review of Lakeside, therefore providing management the opportunity to perform complex transactions, hoping that the auditors are not skilled enough to find the fraud. If the engagement is accepted, Abernethy and Chapman should consider hiring a skilled personnel or training their staff to be proficient in auditing the industry. If Abernethy and Chapman choose to accept the engagement, they should consider hiring a skilled personnel or training their existing staff to be proficient in auditing the industry. 4. Many business...

Under the ISA, additional communication in an audit report when the auditor considers it necessary to: (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. The Lakeside Company is facing a going concern issue. And according to SAS 79, auditors are required to add an explanatory <https://assignbuster.com/why-would-the-owners-of-lakeside-essay-sample/>

paragraph, when there is a going concern issue. 5. Lakeside has recently created...

Because a significant portion of management's compensation is represented by bonuses or some other incentives, the value of which is contingent upon the company's achieving unduly aggressive targets for operating results or financial position. In financial accounting, it is one method of earning management called "cookie jar". When a company is in a growth stage, it possesses the highest sales growth, the highest capital expenditure, and the lowest dividend payout, and more requirement of outside capital fund. When a company sustains more financial pressure, it may identify more material misstatement due to fraud. In this specific case, the bonus plan will give every manager and assistant manager a cash bonus each January based on the income earned by his or her store during the previous year. The managers and assistant managers in that store may exaggerate the income earned to get the cash bonus.

6. Rogers want...

A CPA firm faces an independence problem in auditing the output of system, which the same firm designed and installed to a public company. According to Sarbanes-Oxley, it prohibits financial information systems design and implementation service to a client by auditors. However, auditors are allowed to design, develop, install, or integrate an information system unrelated to the financial statement or accounting records under AICPA Code of Professional Conduct Requirements for non-public companies. Yes, if a CPA firm were to develop new accounting systems specifically for the company then they would lack the independence needed to test them.

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Therefore Rogers should have hired a consulting or software Development Company to help develop a new accounting system as it could not have been completed by the auditing firm doing the current audit. Also, since this is a public company the SEC website states: “ Financial information systems design and implementation. Designing and implementing a hardware or software system used to generate information that is significant to the audit client’s financial statements may create a mutual interest between the client and the accountant in the success of that system, supplant a fundamental business function, or result in the accountant auditing his or her own work” (SEC, 2000, para 18) 7. In recent years...

Abernethy and Chapman are desirable because they have a steady clientele and continue to generate revenues leaving them with a net income that is favorable. Often companies will merge with another company in an effort to avoid bankruptcy, consolidate services, or expand. Over the years, we’ve seen many big-name firms merge with others. Acquisitions and mergers are becoming a trend due to the number of partner retirements and the lack of succession plans. (Sinkin and Putney, 2013) Firms such as Abernethy and Chapman might agree to an acquisition because it is often the most cost-effective way for them to increase cash flow and continue to be successful. Mergers can either be a success or a failure. When you merge organizations, you are also merging personalities which can often lead to conflict; however, merging the different levels of expertise could be beneficial to a firm. Ultimately, I believe that merging firms will create growth within the auditing profession.