

Regina co. case essay sample

[Finance](#)



**ASSIGN
BUSTER**

1. Prepare common-sized financial statements for Regina for the period 1986 to 1988. Also, compute key liquidity, solvency, activity, and profitability ratios for the years 1987 and 1988. Given these data, identify what you believe were the high-risk financial statement line items for the 1988 Regina audit.

I computed the ratios for 1986 as well as the required 1987 and 1988. The most interesting occurrence is how the values for the growth were not translated in the ratios. As sales increased, cost of goods sold decreased. This would indicate that either you raised prices of your product or you found a method to manufacture for less. If the latter were accurate, then I would assume that could be a chance of increased returns. Bank debt rose 40% in a three-year span. Property, Plant & Equipment decreased in from 1986 to 1988, which seems a bit suspicious considering sales more than doubled. Could Regina realistically lose these assets during production of a variety of new products?

High-risk items were the net sales, cost of goods sold, accounts receivable and inventory. AR turnover was slowing down as sales were increasing. The inventory turnover was slowing as well. As an auditor, I would think that the increased net sales would drive those ratios up rather than down. At the least, they should have increased testing based on this.

2. Identify audit procedures that might have resulted in the Peat Marwick discovering (a) the \$5 million of bogus sales recorded by Regina executives during fiscal 1988 and (b) the intentional understatement of the company's sales returns for that same period.

(a) Confirming Accounts Receivable would have been a great indicator that there were millions of dollars of false sales recorded. After receiving the confirmations and comparing them to the accounts, the conflicting numbers would have created a need to test the vouching and tracing.

(b) The inventory valuation should have been the initiator of additional q.