

# [North face inc. case study](https://assignbuster.com/north-face-inc-case-study/)

1. Should auditors insist that their clients accept all proposed audit adjustments, even those that have an “ immaterial” effect on the given set of financial statements? Defend your answer. When it comes to immaterial effect on a set of financial statements I would say that clients should not accept all proposed audit adjustments. By clients not accepting all proposed audit adjustments, auditors are forced to determine the aggregate basis the impact of a proposed or passed audit adjustment that might occur on a client’s financial statement. A client may disagree with the need for a given adjustment.

2. Should auditors take explicit measures to prevent their clients from discovering or becoming aware of the materiality thresholds used on individual audit engagements? Would it be feasible for auditors to conceal this information from their audit clients? In my opinion, North Face Inc. displayed unethical clients. When information is given with materiality on audit engagements, unethical client personnel from all areas can use the information that could jeopardize an audit engagement or an individual’s audit procedures.

It would not be feasible for auditors to conceal information from audit clients because an auditor’s intent and the given scope of materiality of an audit test can be determined by client’s getting documents to prepare various schedules to where audit procedures will be applied along with other audit-related tasks that may be performed.

3. Identify the general principles or guidelines that dictate when companies are entitled to record revenue. How were these principles or guidelines violated by the $7. million barter transaction and the two consignment sales discussed in this case? One principle would be the revenue recognition when right of return exists meaning that it prohibits a seller from recognizing revenue when the given customer can return he product and the ultimate payment to be received by the seller hinges on the customer reselling the product. Another area of the revenue recognition principle would be with bartering. When a company receives credits for an exchange, it is not determinable at the time of exchange.

Although the exchange is satisfied by the transaction of the revenue recognition principle, the revenue is not yet “ realized”, therefore any profit should be deferred. North Face Inc. violated both features of the revenue recognition rule because there was not a true exchange since the two customers did not pay for the merchandise and the transactions were not finalized, therefore the “ realized” requirement was not satisfied within the revenue recognition principle.

4. Identify and briefly explain each of the principal objectives that auditors have to accomplish by preparing audit workpapers. How were these objectives undermined by Deloitte’s decision to alter North Face’s 1997 workpapers? Audit documentations are used for two purposes: 1) to provide the principal support for the auditor’s report and 2) aid the auditor in the conduct and supervision of the audit. Deloitte’s decision to alter the workpapers that the 1997 audit team did affected the 1998 audit because of the information that were used from the audit done in 1997.

Deloitte’s auditors destroyed audit evidence when they modified and did not document the given revision in the workpapers in 1997, which the audit team had properly investigated the relevance of the barter transactions and proposed audit adjustment that was consistent with the requirements. In the end, the 1998 audit team did not make the right decision on the accounting treatment for the barter transaction that was recorded by North Face that year.

5. North Face’s management teams were criticized for strategic blunders that they made over the course of the company’s history.

Do auditors have a responsibility to assess the quality of the key decisions made by client executives? Defend your answer. There would be a higher standard when it comes to a high management and low management team. Fraud can still occur and documents can still be manipulated, but the overall quality of management’s decisions will affect the inherent risk of an audit test. As an auditor, you would be aware of all the risks that occur, but you must also have the competence to all areas of an audit.