

# SANFIELD, INCORPORATED: A COMPUTERIZED AUDIT CASE

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## **PREFACE**

This first edition of Sanfield, Incorporated: A Computerized Audit Case contains data and information necessary to perform an audit of Sanfield, Incorporated (a fictitious company) for the year 1987. Completion of the assignments will afford the user practical, "hands on" experience in the conduct of an annual audit including the completion of working papers, the determination of proposed audit adjustments, the inclusion of audit procedures, the preparation of year-end financial statements, the determination of internal control strengths and weaknesses, the composition of management letters, and the construction of flowcharts in the areas of sales on account/cash receipts and raw materials issuance. Attention is focused, also, on analytical review procedures and analysis and the issuance the appropriate audit opinion as a result of the user's findings while conducting the audit.

The CASE has been written to enable the user to complete the assignments manually or with computer applications; or, a combination of both manual and computer assignments may be required. Additionally, optional assignments are included depending upon the discretion of the instructor and/or the time limitations of the course.

Each assignment includes manual and computer requirements necessary to complete the audit of that particular area. There are required assignments which may be omitted, i.e., the preparation of financial statements for 1987 at the end of the audit. Completion of the Working Trial Balance by the user will indicate the judgments made regarding adjustments to the accounts and year-end balances on the respective statements and schedules. Flexibility has been "built into" the case so that the instructor may exercise his/her discretion in determining which requirements should be adapted to a particular audit course and the resources available to the user.

The authors have developed Sanfield, Incorporated: A Computerized Audit Case because they believe that there is a definite need for an application of knowledge acquired in an auditing course so that the users will gain insight and expertise in the examination of financial statements during a financial audit. Several instructors in auditing have indicated to the authors that this type of case will serve as an invaluable teaching aid and learning experience for students of auditing.

A comprehensive Solutions Manual accompanies the Case, developed and written by the authors of the Case. Solutions to all required and optional assignments are included in this Manual.

The Case package includes the text of the case, computer usage instructions, and a prepared student diskette ready for data input. If an instructor wishes to require manual preparation of working papers, he/she may require users to purchase thirteen-column and four-column analysis paper. The diskette accompanying the Case allows the user to perform computer application in Lotus 1-2-3\*, either Lotus version 1A, Lotus version 2.0 or the Student version (2E) of Lotus 1-2-3. The Sanfield, Incorporated diskette is prepared with space for each assignment. Comprehensive computer application instructions are given in the Appendix of the Case and specific computer application instructions appear within each assignment file in the Sanfield, Incorporated diskette. The Sanfield, Incorporated diskette is menu driven. This feature enables users to fulfill assignment requirements with no prior knowledge of Lotus 1-2-3 usage. For those users who are already familiar with Lotus 1-2-3 the templates prepared for the assignments save valuable time in completing the requirements thus enabling the user of the Case to complete the requirements within a reasonable time frame. The user, therefore, is able to focus on auditing rather than template design; yet be able to acquire adequate computer exposure in auditing applications.

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Working papers are set up in a suggested structure and appropriate column headings are included. Users input selected data into the working paper structure so that they can spend adequate time on audit related decision making procedures and computations. Formulas have been included which total data, thus removing time demands on arithmetical processes. This, in no way, eliminates the necessity for the user to analyze, select, and determine which data and information are appropriate for a particular working paper.

We are grateful to Frank S. Burrows and Diane Hilgers of Richard D. Irwin, Inc., who initiated this project and encouraged us in its completion; to Ron Regis of Richard D. Irwin, Dale Brown and Peter Gorgenyi of Educational Software Services who provided guidance, encouragement, and invaluable suggestions and recommendations.

We are especially grateful to Vedat Gunay, Personal Computer Coordinator, West Georgia College, for his invaluable technical assistance in the preparation and the printing of the Case. Our special thanks go to Steve Jennings, Jennifer Peal, and Janice Arsan who devoted their time to the proofreading of the manuscript.

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Naomi L. Satterfield

# **SANFIELD, INCORPORATED**

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## **GENERAL INFORMATION**

You are the auditor of Sanfield, Incorporated. Each assignment contains specific instructions; the following general instructions are presented as a guide to the completion of the audit:

1. On each working paper, indicate the procedures that would be followed in connection with that particular section of the audit.
2. Prepare lead schedules, where appropriate, for each assignment in the audit. This is NOT mentioned in each assignment.
3. Prepare subsidiary schedules where appropriate (i. e. aging schedule for trade accounts receivable). This is NOT mentioned in each assignment.
4. Enter all proposed audit adjustments in three places:
  - (a) on the working paper involved in the adjustments,
  - (b) on the proposed audit adjustments working paper,
  - (c) in the adjustments column of the working trial balance.
5. All final totals are rounded to the nearest whole dollar.
6. After the completion of each working paper, initial and date each page. Remember to include the appropriate tick marks and legend on each working paper.

### **Optional Requirement**

Prepare an engagement letter to Sanfield, Incorporated dated December 1, 1987 from the firm of Lee and Lee, Certified Public Accountants.

### **Miscellaneous Information**

Sanfield, Incorporated was organized under the laws of the State of Georgia, January 20, 1981. The accounting firm Lee and Lee has served as the auditors of the Company since December of 1983. The fiscal year of the Company is the calendar year.

The audit progression is from the first current asset account, petty cash fund, to the last balance sheet account, retained earnings. In addition, related items of revenue and/or expense should be examined concurrently with the balance sheet accounts and any necessary audit adjustments should be proposed at that time.

Before the audit begins, the client understands that year-end adjustments will be made and an adjusted trial balance prepared. To save time, it is your practice to count the cash on hand and examine all negotiable securities preceding the opening of business on the first business day of each year.

You may assume that the books of the original entry were footed and that the postings to the general ledger were traced and verified. In addition, original documents have been compared to the recording of transactions.

At the completion of the audit, you are to prepare an audit report stating your opinion on the financial statements. The audit completion date is March 5, 1988.

## **INFORMATION REGARDING SANFIELD, INCORPORATED**

### **General**

Audit information is obtained from the minutes of the Board of Directors, the key executives and other personnel of Sanfield, Incorporated, and the accounting and financial records of the corporation. In this audit, the information derived from these sources is summarized for your reference purposes. Naturally, much of this information and data can be found in the permanent file of working papers.

Since the following summaries have already been compiled for you, it will not be necessary for you to prepare the usual summaries of important information and board minutes.

### **Audit**

The audit is performed by the firm of Lee and Lee, Certified Public Accountants, Eastern Building, Suite 103, 1011 Redbud Street, Atlanta, Georgia 30989. The firm manager in charge of the audit is Steve Jennings, assisted by Jennifer Whitmire, Russell Bell, and Victor Green. Except for the inventory and the petty cash fund, the audit was begun January 28, 1988 and completed March 5, 1988. The audit period is for the fiscal year ending December 31, 1987. The report is to be directed to the Stockholders and the Board of Directors of Sanfield, Incorporated.

### **Factory and Office Headquarters**

The factory and general offices are located at 1202 Division Road, Atlanta, Georgia 30909.

## **Personnel**

The officers and executive staff of Sanfield, Incorporated are as follows:

### **Officers:**

President: D. L. Greene

Vice President and General Manager: E. Lee Mcwhorter

Secretary-Treasurer: Clint Eidson

### **Executive Staff:**

Sales Manager: Jacquelyn G. Moon

Office Manager: Diane H. Scott

Chief Accountant: Kent Hannah

Factory Manager: Wayne Blalock

Chief Cost Accountant: Gayle Worthy

The factory normally employs approximately 200 people; there are 25 office employees; 30 salespersons who work directly from the office, and there are 10 truck drivers.

## **Production and Sales**

The products are:

Boilers, ash trays, industrial containers, bathroom fixtures, executive metal desks, typewriter desks, pizza pans, filing cabinets, bicycle racks, luggage racks, tool boxes and work stations. Each product carries its own trade name. Sales are made to retailers and to middlemen throughout the United States.

An advertising and sales promotional campaign has been initiated, primarily in national magazines.

## **Financial**

**Sanfield, Incorporated was incorporated on January 20, 1981, under the laws of the State of Georgia, with authorized capital stock as follows:**

**Preferred 8% stock, \$100 par, 40,000 shares authorized, 1,500 shares issued. The 8% preferred stock is cumulative and non-participating.**

**Common stock \$10 par, 100,000 shares authorized, 30,000 shares issued. The regular annual dividend on the common stock is \$10 per share; occasional special dividends are paid.**

**A bond issue of \$1,000,000, ten years, 10% debenture bond is outstanding. The bonds were issued on January 4, 1985 and will mature on January 4, 1995. A sinking fund is required for the retirement of the bonds. Bond interest is payable semi-annually on January 1 and July 1.**

## **Internal Control**

**Lee and Lee, under the direction of Steve Jennings, examined and evaluated the overall and specific internal controls in effect. It was determined that internal control was strong in all areas examined except inventories. Therefore, in order to conserve time, specific internal control features will not be included for each operation except for cash and inventories. All employees who receive and disburse cash are bonded. All physical facilities and equipment for receiving and recording cash are adequate and conducive to strong internal control. The client cooperated fully in furnishing the auditors all documents, files, correspondence, etc., requested. Upon the inspection of the general office and the plant, the audit staff determined that the physical arrangement of facilities and records maintained were designed to enhance internal control.**

## **EXCERPTS OF THE MINUTES OF BOARD OF DIRECTORS**

Early in the audit, you requested the minutes of all meetings of the Board of Directors and Stockholders held during 1987 (previous year's minutes are maintained in the permanent file). You were furnished these minutes by the Secretary and you summarized the following information:

**March 4, 1987**

Authorized E. Lee Mcwhorter, Vice President, to lease a 1987 delivery truck for three years, with monthly payments of \$1,200. The truck was delivered on June 1; the first payment was made on July 1, for the month of June 1987.

**April 3, 1987**

Authorized Wayne Blalock, factory manager, to purchase a new punch press (factory machinery) at a cost not to exceed \$75,000.

The firm of Lee and Lee was selected as the auditors for 1987.

**May 4, 1987**

Declared the regular semi-annual cash dividend on the 30,000 shares of common stock outstanding and the stated semiannual cash dividend on the 1,500 shares of 8% preferred stock to the stockholders of record May 27, 1987.

**June 5, 1987**

Authorized the purchase of temporary marketable investments, \$400,000 of U. S. Government Bonds. The bonds were purchased June 15, 1987 at face value plus the accrued interest of \$1,000. The bonds

carry an annual interest rate of 6%, and interest is payable semi-annually on June 1 and December 1.

**July 5, 1987**

Authorized D. L. Greene, President, to enter into a contract with the Rowell Company for the construction of a new building at a total cost not to exceed \$2,000,000.

**October 3, 1987**

Authorized Wayne Blalock, factory manager, to purchase a new press at a cost not to exceed \$40,000.

**November 4, 1987**

Declared the regular semi-annual cash dividend on the 30,000 shares of common stock outstanding and the stated semi-annual cash dividend on the 1,500 shares of 8% preferred stock to the stockholders of record on November 26, 1987.

**December 5, 1987**

Authorized D. L. Greene, President, to negotiate a contract with the Rowell Company for the construction and renovation of a general office in an unused building at a cost not to exceed \$500,000, payment to be made upon completion of the renovation. The construction is to begin early in 1988.

Authorized Wayne Blalock, factory manager, to purchase a new automated steel saw at a cost not to exceed \$200,000.



Adopted a resolution calling a meeting of the stockholders on April 10, 1988 for the purpose of considering the issuance of 1,000 shares of authorized 8% preferred stock, the issuance of 15,000 shares of authorized common stock, and for the purpose of electing directors for 1988.

Authorized a \$2,000 loan to an employee, 60 days, non-interest bearing note.

Authorized D. L. Greene, President, to negotiate a purchase contract with R. Davis Metals, Incorporated, for raw materials inventory at a cost not in excess of the average 1987 price.

# FINANCIAL STATEMENTS AND SCHEDULES - 1986

## SANFIELD INCORPORATED

### INCOME STATEMENT

For the Year Ended December 31, 1986

Sales		\$ 35,453,366
Less: Cost of Goods Sold		31,210,025
		<hr/>
Gross Profit on Sales		\$ 4,243,341
Operating Expenses:		
Selling Expenses (See Schedule)	\$ 2,100,230	
Admin. Expenses (See Schedule)	824,665	
	<hr/>	
Total Operating Expenses	2,924,895	
		<hr/>
Income from Operations		\$ 1,318,446
Other Income:		
Interest Income -- US Govt. Oblig.	\$ 0	
Sinking Fund Income	1,600	
Misc. Income	0	
	<hr/>	1,600
		<hr/>
		\$ 1,320,046
Other Expenses:		
Interest Expense: Notes	\$ 12,200	
Interest Expense: Bonds	98,000	
Interest Expense: Leased Computer	0	
Loss/Gain on Disp. of Fixed Assets	0	
	<hr/>	110,200
		<hr/>
Income Before Taxes		\$ 1,209,846
Less: Income Taxes:		
Federal Income Taxes	\$ 483,938	
State Income Taxes	60,492	
	<hr/>	544,431
		<hr/>
Income Before Profit Sharing		\$ 665,415
Less: Profit Sharing Expense		66,542
		<hr/>
Net Income		\$ 598,874
		<hr/>
Earnings per Share:		\$ 19.56245
		<hr/>