

Where is That Long-Term Debt Program for Big Moo?: Problem Handouts



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Where is That Long-Term Debt Program for Big Moo?

Part 1

You have been assigned to supervise the Big Moo audit. Big Moo Distributors (BMD) is a new and rapidly expanding company founded on June 5, 1995. It is headquartered in Fargo, ND. The company's objectives are to locate and purchase excess and over stocked inventories that are being liquidated at below dealer prices, or to purchase factory reconditioned inventory. BMD then resells the merchandise to individuals and retailers at 25 to 40% below wholesale prices.

BMD purchases merchandise because of closeouts and model changes, business and factory closings, overproduction and excess inventories, large contract cancellations, and from companies that have an urgent need for operating capital. BMD operates a retail store with a warehouse in the rear of the building. BMD primarily focuses on "wholesale" sales. However, in addition to the retail store, BMD serves as an agent for special order customers to locate low-priced specialty items. These items are normally drop shipped to the customer.

Our initial audit of BMD is for the year ending December 31, 1996. Management's main emphasis is on sales growth and moving inventory. The controller is not very cooperative working with our staff and has become surly when we have suggested audit adjustments. The controller can best be described as an Arnold Schwarzenegger type ("I'm the party pooper"). He seems to enjoy giving our staff a rough time like a kindergarten cop enjoys smacking around drug dealers. New staff should introduce themselves to the controller as soon as they arrive at the main office. When the controller asks, "Who are you?", reply "I'm your worst nightmare" (he loves Sylvester Stallone), or alternatively, "I'm the auditor; I'm here to help".

Based on your preliminary discussions with the officers of the company, you are aware that the board of directors has approved a warehouse expansion project and authorized the president to negotiate with a local bank for a \$750,000 loan to finance the expansion. A review of the company's balance sheet, revealed that Big Moo has recorded a \$750,000 line of credit in the current liabilities section and that plant and equipment have increased by about \$1 million over the previous year.

The audit has been in process for about eight days. You are ready to begin the audit of long-term debt (LTD). Unfortunately the LTD portion of the audit program has been deleted from the word processing file. There are no hard copies because your firm has gone to the paperless audit, so you will need to reconstruct the LTD program.

1. Discuss the types of evidence that you will need to form an opinion about LTD.
2. How and where will you obtain this evidence?



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Part 2

1. What are the objectives for auditing LTD?
2. What procedures will you use to address those objectives?



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Part 3

You have asked for and received from the client the comparative balance sheets and income statements, the board of directors' minutes, the client-prepared LTD schedule, and directly from the bank: the bank confirmation. Using these materials, audit LTD by following the procedures developed in part two, document your work, and reach a conclusion about whether or not LTD is fairly stated and properly classified. Propose adjusting journal entries if necessary.



Where is That Long-Term Debt Program for Big Moo?

Part 4

1. What is a paperless audit?

<https://tax.thomsonreuters.com/press-room/in-the-news/getting-closer-paperless/>

2. What are the advantages and disadvantages of a paperless audit?



Where is That Long-Term Debt Program for Big Moo?

Message from the Board of Directors

Big Moo Distributors

Minutes of the Board of Directors

Date: February 14, 1997

Bill Brahman, chairman of the board, presided over the first meeting of the year. All stockholders were present: Gertrude, Sam, and Jennifer Brahman; and JD Blackwood.

The minutes of the November 14, 1996 meeting were read and approved.

Henry Williams, controller, presented the financial forecast for 1997. Sales are expected to increase by 10% with cost of goods sold and general expenses expected to sustain the same proportion to sales as the previous year.

JD Blackwood moved a declaration of dividends for the year ended. The motion died for lack of a second.

Bill Brahman moved and Gertrude Brahman seconded that the president and the three vice-presidents would receive 10% bonuses based on the 10% increase in sales from the previous year. Motion passed 4-1 with JD Blackwood casting the dissenting vote.

Officer salaries were unanimously approved for 1997 as follows:

President, Bill Brahman	\$60,000
VP-Marketing, Beatrice Morgan	\$55,000
VP-Finance, Roger Mann	\$50,000
VP-Operations, Shelby Foote	\$55,000

Putnam Assurance, CPAs was approved as the auditors for the current year. Garrison, Knoepfle, and Associates were retained as legal counsel.

Meeting adjourned, 5:00 PM /s/ Gertrude Brahman, Secretary



Big Moo Distributors Minutes of the Board of Directors

Date: June 5, 1997

Bill Brahman, chairman of the board, presided over the second meeting of the year. All stockholders were present: Gertrude, Sam, and Jennifer Brahman; and JD Blackwood.

The minutes of the February 14, 1997 meeting were read and approved.

Plans were discussed to acquire additional equipment and warehouse space as of August 1, 1997. Adjacent warehouse space will be purchased from Goodwin Manufacturing for \$700,000. Renovating and upgrading the building will cost approximately \$200,000. Office equipment purchases up to \$100,000 and warehouse equipment purchases of approximately \$150,000 were approved.

A \$750,000 loan, effective August 1, 1997 at 11% interest was approved. The additional warehouse building and the new equipment will be pledged as collateral.

Henry Williams, controller, reported that sales are down from projections for the year. With the addition of the warehouse, inventory and sales should increase for the remainder of the year.

Meeting adjourned, 6:00 PM /s/ Gertrude Brahman, Secretary



Date: February 14, 1998

Bill Brahman, chairman of the board, presided over the first meeting of the year. All stockholders were present: Gertrude, Sam, and Jennifer Brahman; and JD Blackwood.

The minutes of the June 5, 1997 meeting were read and approved.

Henry Williams, controller, presented the financial forecast for 1998. Sales are expected to increase by 10% with cost of goods sold and general expenses expected to sustain the same proportion to sales as the previous year. Hank reported that the delay in purchasing needed equipment for the additional warehouse space caused inefficiencies in inventory movement and thus reduced purchases and sales for much of 1997. These problems are solved and 1998 should be a good year.

JD Blackwood moved a declaration of dividends for the year ended. The motion died for lack of a second.

Bill Brahman moved and Gertrude Brahman seconded that the president and the three vice-presidents would receive 2% bonuses based on the 2% increase in sales from the previous year. Motion passed 4-1 with JD Blackwood casting the dissenting vote.

Officer salaries were unanimously approved for 1998 as follows:

President, Bill Brahman	\$65,000
VP-Marketing, Beatrice Morgan	\$59,000
VP-Finance, Roger Mann	\$54,000
VP-Operations, Shelby Foote	\$59,000

Putnam Assurance, CPAs was approved as the auditors for the current year. Garrison, Knoepfle, and Associates were retained as legal counsel.

Henry Williams, controller, reported that an IRS tax assessment of \$24,000 was being handled by Big Moo's legal counsel. It is unknown at this time whether or not Big Moo will prevail.

Meeting adjourned, 4:00 PM /s/ Gertrude Brahman, Secretary



Where is That Long-Term Debt Program for Big Moo?

Bank Confirmation—Wells Fargo Bank

STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

ORIGINAL
To be mailed to accountant

Big Moo Distributors
CUSTOMER NAME

We have provided to our accountants the following information as of the close of business on 12-31, 1997, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided, if the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

Financial Institution's Name and Address: Wells Fargo Bank
61 River Walk
Fargo, ND 58102

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL
<u>047-1961</u> <u>-10-1-61</u> <u>Business Loan</u>	 <u>400,000</u>	<u>1-2-01</u> <u>@ 110,000</u> <u>per year</u>	<u>10%</u>	<u>1-3-97</u>	<u>Building</u>

Roger Mann
(Customer's Authorized Signature) 1-4-98
(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

Konrad Sundberg
(Financial Institution Authorized Signature) 1-12-98
(Date)

VA - FINANCE
(Title)

EXCEPTIONS AND/OR COMMENTS

Please return this form directly to our accountants: (PNTNAM) ASSURANCE, CPA's
3 PNTNAM HALL
(FARGO, ND 58105)

* Ordinarily, balances are intentionally left blank if they are not available at the time the form is prepared.



Where is That Long-Term Debt Program for Big Moo?

Bank Confirmation—First National Bank

Institutions

STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

ORIGINAL
To be mailed to accountants

Big Moo Distributors
CUSTOMER NAME

Financial Institution's Name and Address
[FIRST NATIONAL BANK]
1961 9th Avenue
[FARGO, ND 58102]

We have provided to our accountants the following information as of the close of business on 12-31, 1997 regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*
General Checking	020-071133		195,812

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL
020-073133 Line of Credit	750,000	12-1-97 @ 6 7/8% of Principal per year	11%	—	Land and equipment

Roger Mann
(Customer's Authorized Signature)

1-4-98
(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

Thomas Kironoski
(Financial Institution Authorized Signature)
JP - Loan
(Title)

1-10-98
(Date)

EXCEPTIONS AND/OR COMMENTS

Please return this form directly to our accountants:

[PATNAM ASSURANCE]
COA-2
3 PATNAM HALL
[FARGO, ND 58105]

* Ordinarily, balances are intentionally left blank if they are not available at the time the form is prepared.

