FORD MOTOR COMPANY AND TOYOTA MOTOR CORPORATION:
ACQUISITION AND INVENTORY CYCLE ISSUES

Go to www.cengage.com/accounting/rittenberg for the Ford and Toyota materials.

Source and Reference	Question
Ford 10-K, Toyota 20-F	**1.** What are the key acquisition and inventory cycle accounts for Ford? What are the critical accounting policies for these accounts?
Ford 10-K, Toyota 20-F	**2.** Compare Ford and Toyota's footnotes on inventory. Calculate the percentage of finished products that each company holds in inventory. What inferences do you draw from this analysis? How could this ratio be used to understand slow-moving inventory, e.g., by geographic region or product line?
Chapter 8 Ford/ Toyota Appendix Materials	**3a.** Use the financial ratios provided in an earlier chapter appendix for Ford and Toyota. What are the ratios most relevant to the acquisition and inventory cycle? **3b.** Think creatively, and develop additional ratios or comparisons that would help you understand this transaction cycle for these automotive companies. In addressing this question, it will be helpful to think about the general ratios that you calculated in Chapter 8, but to then tailor them to this unique industry and business setting.
Ford 10-K	**4.** Ford lists a variety of risk factors associated with its business. Review those and identify which relate most to the acquisition and inventory cycle. What evidence might the auditor gather to understand how those risks may affect the financial statement line items associated with the acquisition and inventory cycle?
	5. As an auditor, what is your obligation regarding the statements that management makes in its management discussion and analysis?

Module VI: Sales and Purchases Cutoff Tests

Along with Richard Derick and the rest of the audit team, you observed Biltrite's December 31, 2009, physical inventory. Derick is satisfied with the inventory-taking procedures and has considerable confidence in the reliability of the ending inventory quantities. He is concerned, however, with the methods used to value the ending inventories (especially the disposition of unfavorable budget variances) and with possible misstatements relating to sales and purchases cutoff. With regard to cutoff, Derick is particularly interested in learning why customers could not confirm details of sales transactions recorded by Biltrite on December 31, 2009. In response to the confirmation and cutoff concerns, he has asked you to examine the appropriate books of original entry and underlying documentation for a few days before and after the balance sheet date. Specifically, you are interested in the following:

1. Were purchases and sales recorded in the proper accounting period?
2. Were purchases recorded at year end included in the physical inventory?
3. Were all materials and purchased parts included in inventory recorded as purchases?
4. Were the finished goods inventory accounts properly relieved for all recorded sales?

You download Biltrite's December voucher register and sales summary. These are partially reproduced in Exhibits BR.7 and BR.8 referred to in Module II. Using these as a focal point, you requested that the client provide you with the documentation supporting certain of the recorded transactions. You now are prepared to record any necessary audit adjustments and reclassifications.

Requirements

1. Using the spreadsheet program and downloaded data, retrieve the file labeled "Cutoff." Study WP 6.4, "Inventory Cutoff," and compare it with the voucher register and sales summary portions reproduced in Exhibits BR.13 and BR.14 in Module II. Comment on any cutoff misstatements that you detect and determine their effect on net income. Do the misstatements appear to be intentional or unintentional? Explain.
2. Draft any audit adjustments suggested by the analysis performed in requirement (1). (Remember that Biltrite maintains perpetual inventory records and adjusts its perpetual inventory to the physical inventory through the appropriate "Cost of Goods Sold" accounts.)
    1. Print the completed document with the proposed cutoff audit adjustments.

Module VII: Search for Unrecorded Liabilities

An important part of every audit is examining vendors' invoices processed after year end. Related to cutoff, as discussed in Module VI, this set of procedures has the purpose of determining that no significant invoices pertaining to the year being audited have been omitted from recorded liabilities. Derick has asked that you examine the document prepared by Cheryl Lucas and entitled "Search for Unrecorded Liabilities," and review it for necessary audit adjustments.

Requirements

1. Using the spreadsheet program and downloaded data, retrieve the file labeled "Liab." Comment on the adequacy of the procedures performed by Lucas.
2. Assuming that you found the following additional unrecorded charges pertaining to 2009, draft Audit Adjustment 6 at the bottom of WP 15.1:
   a. Sales commissions $366,900
   b. Employer's payroll taxes: FICA $94,000, state unemployment $126,000
   c. Printing and copying $27,800
   d. Postage $22,300
   e. Office supplies $18,6002
3. Print the document.

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Audit of Cash and Other Liquid Assets

LEARNING OBJECTIVES

The overriding objective of this textbook is to build a foundation with which to analyze current professional issues and adapt audit approaches to business and economic complexities. Through studying this chapter, you will be able to:

1. Describe the accounts involved in the audit of cash and other liquid assets and identify the relevant financial statement assertions concerning cash and other liquid assets.
2. Describe the approach an auditor would take to perform an integrated audit of cash.
3. Describe why cash is an inherently risky asset and identify risks related to cash. Consider issues involving materiality, inherent risk, and various cash management techniques.
4. Identify controls typically present in cash accounts and articulate how auditors gain an understanding of internal controls over cash.
5. Identify tests of controls over cash and related accounts.
6. Describe the substantive audit procedures that should be used to test cash.
7. Identify types of marketable securities and other financial instruments, articulate the risks and controls typically associated with these accounts, and outline an audit approach for these accounts.
8. Apply the decision analysis and ethical decision-making frameworks to situations involving the audit of cash and other liquid assets.

CHAPTER OVERVIEW

Cash needs to be controlled for organizations to function effectively. In this chapter, we examine approaches that organizations take to control their cash assets and apply those concepts to the evaluation of control risk over the accounts and to audits of account balances. In terms of the audit opinion formulation process, this chapter involves Phases III and IV, that is, obtaining evidence about controls and substantive evidence about assertions concerning the audit of cash and other liquid assets. Even though a high volume of transactions flows through the cash account, it usually has a relatively small balance. However, because of the vulnerability to error or misappropriation, organizations and auditors usually emphasize the quality of controls over the cash transactions.

We also consider issues concerning the audit of marketable securities and financial instruments. The increase in the variety of financial instruments, particularly derivatives, presents additional risks to organizations. The auditor must understand the nature of the financial instruments used by the organization, the risks inherent in them, and the business purpose of the instruments.