Core 1 — Practice Case 1

Case (60 minutes)

Plant Power Inc. (PPI) is a gardening company located in Truro, Nova Scotia. PPI is equally owned by two sisters, Ellen and Joan Harris.

Ellen and Joan have established a good client base and reputation. Unfortunately, results have worsened in the past couple of years as competition has increased and margins have been reduced by rising costs.

PPI sells products such as seeds, plants, and other materials through its gardening centre. PPI also offers various services, including garden consultations as well as planting and maintenance of flowers, vegetable gardens, trees, and shrubs.

Due to financial pressure, in July 2023, PPI terminated its full-time accountant. In September 2023, PPI hired a part-time bookkeeper. The bookkeeper does not have strong technical knowledge, but is very capable at recording PPI's routine transactions and journal entries.

Joan was always very hands-on in the business, reviewing the previous accountant's work and taking care of much of the general office duties. However, in December 2023, she was forced to take a part-time job outside the company to help make ends meet. As a result, she admits she is now less involved than she once was, and her review has been minimal.

PPI has been a client of Cumby and Menchions, Chartered Professional Accountants, for several years. It is now August 1, 2024, and you, CPA, are a senior on the PPI review engagement. You recently met with Ellen and Joan, and your notes from the meeting are included in Appendix I.

2024-11-12

The partner for the PPI engagement has requested that you prepare an engagement planning memo addressing overall financial statement level risk, the engagement approach, and the overall materiality. You have also been asked to address any financial reporting issues impacting the June 30, 2024, financial statements (Appendix II), which have been prepared according to accounting standards for private enterprises (ASPE). In the prior year, the overall financial statement level risk was assessed as low.

Your response should be no longer than 1,800 words, excluding any Excel files.

Appendix I
Notes from meeting with Joan and Ellen Harris

1. In 2024, PPI introduced a new service called Rent Some Green to provide gardening space to people living in condos and apartment buildings. In the spring of 2024, PPI purchased a large plot of land for $50,000 and constructed a greenhouse on it for $35,000. The land was divided into separate gardening plots where “tenants” could plant and maintain a plot for an annual rental fee.

   By May 1, 2024, all plots were rented. Unfortunately, the gardens did not live up to the expectations of PPI or the tenants. The soil proved to be of low quality and several plots were too shady. Joan and Ellen are worried the asset is not worth what they paid for it. In July 2024, PPI spent $20,000 tilling and fertilizing to make the soil fit for gardening. This made the land useful for 15 additional years, and would provide rental fees of $3,000 per year. If PPI were to sell the land now or in the future, the market value would be $50,000 with no additional resale value for the greenhouse.

2. On June 30, 2024, approximately $14,000 in inventory was set aside for a special order scheduled for planting the first week of July. The inventory consisted of exotic shrubs to be planted in front of Total Towers, PPI’s largest commercial client. Total Towers’ president, Mark Stiles, specifically requested these shrubs, so PPI ordered them from Italy. When the shrubs arrived from Italy, PPI invoiced Total Towers $27,000. Mark was excited to hear the news that the shrubs had arrived and made an appointment for Joan to come and plant them. He will be there to inspect that the shrubs meet his expectations prior to planting. The invoice is conditional on Mark’s approval that the shrubs meet his needs. The revenue and related cost of sales were included in the 2024 financial statements when the shrubs were set aside, at Mark’s request.

Appendix I (continued)
Notes from meeting with Joan and Ellen Harris

3. In late May, the municipality banned the sale and use of certain pesticides and weed killers. As part of this ban, PPI must start using organic alternatives. PPI had about $12,000 of banned products in inventory on June 30, 2024. The products will need to be disposed of and cannot be returned or sold.

4. PPI has had a line of credit with Nordic Bank for several years and, prior to 2024, never had an outstanding balance of more than $20,000. The Rent Some Green project required PPI to draw the maximum available of $75,000. The line of credit requires that PPI maintain a current ratio of above 2:1 at year end, based on reviewed statements, or Nordic Bank can demand immediate repayment.

Appendix II
Plant Power Inc. draft financial statements

Balance sheet
As at June 30

	2024 (draft)	2023 (reviewed)
Assets		
Cash	$ 12,000	$ 35,600
Accounts receivable	124,500	100,400
Inventory	183,500	170,000
	$ 320,000	$ 306,000
Property, plant, and equipment, net	317,000	252,000
	$ 637,000	$ 558,000

Liabilities and shareholders' equity

	2024 (draft)	2023 (reviewed)
Line of credit	$ 75,000	$ 0
Accounts payable	79,000	98,500
Common shares	100	100
Retained earnings	482,900	459,400
	$ 637,000	$ 558,000

Income statement
For the year ended June 30

	2024 (draft)	2023 (reviewed)
Sales	$ 850,000	$ 882,000
Cost of goods sold and other expenses	826,500	840,000
Pre-tax net income	$ 23,500	$ 42,000