

Case Discussion Questions

PART I - Acquiring a strategic understanding of LSL

Required: Follow your instructor's guidance in addressing one of the two requirements below.

Be prepared to discuss LSL's business strategy and some of its key business processes and business risks. Consider how LSL's strategy, business processes, and business risks influence your expectations with respect to portions of LSL's financial statements.

--OR--

Based on case information, apply a portion of KPMG's business measurement process (BMP) to LSL as of the end of 1987. Address the first three components—strategic analysis, business process analysis, and risk assessment.

PART II - Using a strategic understanding of LSL to evaluate the appropriateness of profits recognized on real-estate sales

Required

Evaluate LSL's revenue recognition for the Wescon and Emerald Homes transactions. You will need to refer to SFAS No. 66 "Accounting for Sales of Real-Estate" and also use the knowledge you acquired from the last class. After you have completed your analysis and reached your conclusions, read the handouts that describe the procedures and conclusions reached by LSL's auditor.

PART III- Discussion questions for clinical analysis of audit procedures applied to LSL?

Required

Critique the audit procedures used in the Wescon and Emerald Homes transactions. Consider the following questions when completing your critique:

- 1) How did the auditors' procedures differ from your approach to evaluating the transactions?*
- 2) Describe the evidence LSL's auditors' gathered. How would you characterize the evidence?*
- 3) Given the knowledge framework you developed in the last class, how would you evaluate the evidence obtained by LSL's auditors?*
- 4) How would the knowledge acquired during class 1 influence the auditors' evaluation of the real estate sales? Specifically, does such knowledge affect whether the auditor would allow LSL to recognize revenue?*

PART IV- What Happened to LSL and Its Auditors

Questions:

- 1) LSL's auditors apparently did not uncover fraud nor did their audit procedures determine that revenue recognition was inappropriate. If you had the knowledge obtained last class would you fail to detect fraud? Do you think you would have reached the conclusion that revenue recognition was appropriate in the LSL case?
- 2) To what extent should the auditor be held liable in a case like LSL?
- 3) Who are the auditors responsible to, and what is their responsibility?
How should auditors be punished when they fail to meet their responsibilities?