**Audit Procedures for Acquisition and Disposal of Property, Plant, and Equipment**



The acquisition and disposal of property, plant, and equipment are critical financial transactions for any organization. These transactions significantly impact a company's financial statements, affecting assets, liabilities, and, ultimately, the company's financial health. Guaranteeing the accuracy and completeness of these transactions is vital for maintaining transparency, credibility, and compliance with accounting standards.

Auditors play a vital role in evaluating the acquisition to ensure that financial statements present an accurate and fair view of an organization's financial position. This essay delves into the audit procedures related to these transactions' occurrence, accuracy, and completion assertions. It demonstrates how auditing the disposal of property, plant, and equipment provides evidence of depreciation expense. The essay also includes conclusions from analyzing a selected property and equipment acquisition sample.

**Audit Procedures for Acquisition and Disposal**

Auditing the acquisition and disposal involves a series of procedures to verify these transactions' occurrence, accuracy, and completion. The occurrence assertion ensures that transactions took place and are properly authorized. To audit the occurrence of acquisitions, auditors may examine purchase orders, contracts, and invoices to verify the legitimacy of the transactions. For disposals, auditors assess supporting documentation, such as sales agreements and board resolutions, to confirm the occurrence of the transaction.

The accuracy assertion involves verifying the proper valuation of assets and liabilities related to acquisitions and disposals. Auditors assess whether the recorded amounts are accurate by the relevant accounting standards. This includes examining appraisals, market values, and other valuation methods used to determine the initial recognition of the assets. Auditors also review depreciation methods and calculations to ensure they align with accounting policies and standards.

The completion assertion focuses on whether transactions are properly recorded, classified, and disclosed in the financial statements. Auditors review the accounting treatment of acquisitions and disposals to ensure they comply with relevant accounting standards, such as International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). They assess whether the assets have been capitalized correctly, considering any associated costs such as installation or transportation. In the case of disposals, auditors ensure that assets are appropriately removed from the balance sheet and that any gains or losses are accurately calculated and disclosed.

**Auditing Depreciation Expenses through Disposal**

Auditing the disposal provides evidence of depreciation expense by assessing carrying amounts, accumulated depreciation, and gains or losses on disposal. When an asset is disposed of, its carrying amount is removed from the balance sheet. This change in the carrying amount directly impacts the accumulated depreciation related to the asset. Auditors analyze the carrying amount of disposed assets and compare it to the related accumulated depreciation. Any discrepancies could indicate potential errors in calculating depreciation expense over the asset's useful life.

Additionally, gains or losses on disposal are recognized when an asset is sold for an amount different from its carrying amount. Auditors assess the accuracy of these gains or losses by comparing the recorded amounts to the actual sale proceeds and the asset’s carrying amount. Any discrepancies could signal errors in calculating depreciation expense or improper valuation of the asset. By thoroughly auditing the disposal process, auditors can gain insights into the accuracy and completeness of depreciation expenses recognized in the financial statements.

**Conclusions from Analyzing Acquisitions**

Analyzing a selected sample of property, plant, and equipment acquisitions allows auditors to conclude the organization's compliance with accounting standards and the effectiveness of internal controls. Auditors can form conclusions regarding these transactions' occurrence, accuracy, and completion assertions based on the audit procedures.

Upon analyzing acquisitions, auditors might conclude that the organization has robust controls to ensure proper authorization and documentation of transactions. This conclusion examines purchase orders, contracts, and invoices, demonstrating that acquisitions are appropriately authorized and recorded. Similarly, a conclusion about the accuracy of acquisitions could be drawn by assessing the valuation methods and comparing them to market values. If the valuations align, it indicates an accurate recording of the assets.

Moreover, auditors can conclude whether the organization's financial statements accurately reflect the completion of acquisitions. This conclusion is based on examining accounting treatments, ensuring compliance with accounting standards. Auditors might also assess whether the organization reliably applies depreciation methods to the acquired assets, leading to appropriate recognition of depreciation expense over time.

**Conclusion**

In conclusion, auditing the acquisition and disposal of property, plant, and equipment is crucial for ensuring financial transactions' accuracy, completeness, and compliance. Audit procedures related to the occurrence, accuracy, and completion of assertions play a pivotal role in verifying the legitimacy of these transactions. Additionally, auditing the disposal of assets provides evidence of depreciation expense, as discrepancies in carrying amounts, accumulated depreciation, and gains or losses on disposal can reveal errors in the calculation of depreciation.

By analyzing a sample of acquisitions, auditors can conclude the organization's adherence to accounting standards and the effectiveness of internal controls. These conclusions provide valuable insights into the organization's financial health and the reliability of its financial statements. In this process, using current and authoritative sources is vital for maintaining the quality and credibility of the audit process.

As organizations continue to engage in transactions related to property, plant, and equipment, the role of auditors remains indispensable in upholding transparency, accuracy, and compliance in financial reporting. Through meticulous audit procedures and comprehensive analyses, auditors contribute to the overall reliability and trustworthiness of financial information provided to stakeholders and decision-makers.

https://youtu.be/Etn6cD1qX9c?si=uYoo7r\_Xlhwkl-44

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