

Case**(Suggested time: 70 minutes)**

Siberia Forestry (SF) was incorporated in 1980 by the brothers Petrov. SF owns and operates lumber treating plants across Canada and the US with headquarters located in BC. In addition to treated lumber sales, revenues are earned by distribution of lumber to wholesalers across Canada. SF's Condensed Consolidated Statements of Earnings and Comprehensive Income for its latest year ended December 31, 2019, is in Appendix I.

It is February 2020 and you, CPA, are consulting brothers Petrov on some major issues. Your partner, David Grant, has asked you to consider both accounting and tax related issues faced by the long time client.

In 2019, SF purchased forklifts (Appendix II) to transport treated wood within its plants. The branch managers have prepared the necessary paperwork and forwarded to headquarters. Petrovs have asked your help in determining the accounting treatment of the forklifts. SF is a publicly traded corporation.

The Saskatoon branch's inventory levels have been fluctuating with the introduction of the warehouse management system (WMS) in 2019. David believes that the inventory may be recorded incorrectly on the financial statements and asks you to provide your comments.

Petrovs have been considering leasing new laptops for the marketing department. The current laptops do not provide the video card and CPU capabilities to prepare 3D drawings of the products sold. Relevant information is presented in Appendix IV.

Lastly, Rob, the Director of Finance at SF, has decided to move to the US. Petrovs have asked for your advice on Rob's decision, considering that his family and home are going to remain in Canada.

APPENDIX I
Condensed Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

Siberia Forestry

<i>(in thousands of Canadian dollars)</i>	For the year ended December 31, 2019	For the year ended December 31, 2018
Sales	\$ 1,459,859	\$ 1,145,936
Cost of sales	1,400,637	1,055,802
Gross margin	59,222	90,134
Expenses:		
Distribution	25,563	17,032
Selling and administration	59,926	46,129
Loss on settlement of debt	-	18,718
Finance	8,109	4,351
Subordinated debt interest	1,005	12,278
Other income	(351)	(312)
	94,252	98,196
Earnings before income tax	(35,030)	(8,062)
Income tax expense	8,755	6,651
Net earnings (loss) for the period	\$ (43,785)	\$ (14,713)
Other comprehensive income (loss) for the period		
Exchange differences on translating foreign controlled entities	\$ 3,909	\$ (1,916)
Total comprehensive income (loss) for the period	\$ (39,876)	\$ (16,629)
Basic and diluted net earnings (loss) per common share	\$ (0.38)	\$ (0.32)
Weighted average number of common shares outstanding	116,305	46,277

APPENDIX II
NOTES FROM FORKLIFT LEASE

On April 2, 2019, SF entered into a lease agreement for forklifts under the following conditions:

- The term of the lease agreement is from April 2, 2019, to April 1, 2025, with a guaranteed residual amount of \$3,000, which SF expects it will pay
- Annual lease payments due at the beginning of each year are \$20,000
- Included in the lease payment is \$2,000 for maintenance costs
- SF's incremental borrowing rate is 6%
- SF uses straight-line depreciation method with 10-year useful life on equipment
- Cost method is used to account for Property, Plant and Equipment.

Rob advised Petrovs that a new lease standard came into effect on January 1, 2019. He needs advice on how to account for leases and what journal entries to post in 2019. No entries have been posted to date and no prior leases existed in the books before January 1, 2019. Since Rob needs to explain to Petrovs how this standard has changed, he asks you to explain in as much detail as possible how you have performed your analysis.

APPENDIX III
SASKATOON INVENTORY AFTER WMS CONVERSION

SF's inventory is stored at its warehouses. In 2019, a new warehouse management system (WMS) was introduced that converted the inventory system from periodic to perpetual. The 2019 year end data below was compiled from branch meeting reports.

Product	Total selling price	Total cost
75 – 0x1ALLIED	\$230,000	\$200,000
75 – 0x3ALLIED	300,000	400,000
75 – 0x5ALLIED	10,000	20,000
75 – 0x7ALLIED	20,000	10,000
75 – 0x9ALLIED	90,000	100,000
75 – 0x11ALLIED	10,000	20,000
75 – 0x13ALLIED	130,000	120,000

APPENDIX IV
LAPTOPS FOR MARKETING DEPARTMENT

The new high-power laptops will provide marketing the capability to draw 3D product images. Petrovs chose to lease them from a nearby computer store.

The lease agreement has the following conditions:

- The lease is \$100 per month for 18 months
- Similar laptops can be purchased for \$1,200

Rob is unsure how to account for the leased laptops and did not post any entries.

APPENDIX V

NEW WAREHOUSE MANAGEMENT SYSTEM

The branches have been asking for a new warehouse management system (WMS) for a long time. After months of testing, it was finally ready to be implemented with Saskatoon branch being the pilot branch.

The WMS system allows branch labourers to count inventory using tags. They usually perform it during downtime when there is no one around to disturb the process. Once the tags are scanned, the WMS software submits the data to the IT department which holds all inventory related data on-premise.

The labourers also have the ability to access the ordering system and check which inventory items were sold and at what price, which helps them ensure that inventories are tagged correctly.

There was recently an issue with someone hacking into SF computers and stealing employee confidential data. The IT team suspects someone left their password on their desk which is a common occurrence in SF's family-like culture.

Petrovs have tried once to implement an official IT Policy but the IT Manager dissuaded them, arguing that it is mostly paperwork and has no impact on company's IT security.