

Case 24-2c

Zenith Corporation

Background

Zenith Corporation (“Zenith” or “the Company”) is an SEC registrant headquartered in Texas that manufactures sporting equipment for retailers and organizes its operations by East Region and West Region. The East Region is made up of two large manufacturing facilities located in South Carolina and one smaller manufacturing facility located in Tennessee. The facilities in the East Region are older, and the equipment is not energy efficient. The West Region is made up of two state-of-the-art manufacturing facilities located in Arizona and New Mexico, both of which are highly efficient, and Platinum Leadership in Energy and Environmental Design (LEED)– certified.

In the third quarter of the current year, Zenith released the following press release outlining its intention and plan to achieve net-zero emissions across its entire business by 2030:

Zenith Corporation Press Release

Today, Zenith Corporation is proud to announce its plan to become net-zero across its entire business by 2030.

“We are all seeing firsthand that climate change is real, extreme weather is increasing in frequency, and we all have a responsibility to combat it. We at Zenith believe corporate plays a significant role in this and that is why we are proud to announce that Zenith plans to achieve net-zero emissions by 2030. This will be accomplished by making changes that will be implemented effective today.” — Andrea Smits, chief operating officer, Zenith Corporation

Zenith has outlined a long-term plan with two key actions to help drive it toward becoming a net-zero business by 2030:

- Lower-carbon product design: Zenith will use low-carbon and recycled materials in its products.
- Expanding energy efficiency: Zenith will identify new ways to reduce energy use at its corporate headquarters and manufacturing facilities by replacing older and less efficient company-owned equipment with new high-efficiency models.

Case Facts

You are a member of the current-year audit team for Zenith. The engagement team is currently performing planning and risk assessment procedures, including planning for upcoming inquiries with management and conducting walk-throughs. The senior manager on the engagement team has asked you to lead the meeting with management to gain insights on the impact of the announcement on the financial statement audit in the current year and any additional risk factors that the engagement team should consider for the current year.

Required:

1. Which members of Zenith's management team would you hold inquiries with to obtain additional information about the potential impacts of the announcement on the Company and its environment?
2. What questions could you ask management to determine the potential impact, if any, on Zenith's current-year financial statements and on the audit engagement team's risk assessment conclusions?
3. Assume management plans to replace older and less efficient company-owned equipment with new high-efficiency models by using a phased-in approach over the next five years. Zenith has developed a detailed plan identifying specific manufacturing sites and a detailed list of assets that it will be replacing along with a timeline of when those assets will be replaced. The Company began modernizing three manufacturing sites in the summer of the current year and anticipates completion in the upcoming year. The remaining manufacturing sites will be modernized on a site-by-site basis beginning next year.

What potential risks of material misstatements associated with Zenith's property, plant, and equipment account balance may be affected by its key actions related to environmental, social, and governance (ESG) matters?