Balotelli Co operates a number of hotels providing accommodation, leisure facilities and restaurants. You are an audit senior of Mario & Co and you are currently conducting the audit of Balotelli Co for the year ended 31 December 20X4.

During the course of the audit the following events and issues have been brought to your attention.

Depreciation

Balotelli Co incurred significant capital expenditure during the year updating the leisure facilities at several of the company's hotels.

Depreciation is charged on all assets monthly on a straight-line basis (SL) and it is company policy to charge a full month's depreciation in the month of acquisition and none in the month of disposal.

Food poisoning

Balotelli Co’s directors received correspondence in November 20X4 from a group of customers who attended a wedding at one of the company's hotels.

They have alleged that they suffered severe food poisoning from food eaten at the hotel and are claiming substantial damages. Management have stated that based on discussions with their lawyers the claim is unlikely to be successful.

Trade receivables

Balotelli Co's trade receivables have historically been low as most customers are required to pay in advance or at the time of visiting the hotel.

However during the year a number of companies opened corporate accounts which are payable monthly in arrears. As such the trade receivables balance has risen significantly and is now a material balance.

During the audit of non-current assets, the audit team has obtained the following extract of the non-current assets register detailing some of the new leisure equipment acquired during the year.

Date	Description	Original cost ($)	Depreciation policy	Accumulated depreciation ($)	Charge for the year ($)	Carrying value ($)
1 May 20X4	15 treadmills	18,000	36 months SL	0	4,000	14,000
15 May 20X4	20 exercise bikes	17,000	3 years SL	0	5,667	11,333
17 August 20X4	15 rowing machines	9,750	36 months SL	0	2,167	7,583
19 August 20X4	10 cross trainers	11,000	36 months SL	0	1,528	9,472
		55,750		0	13,362	42,388

In order to verify the depreciation charge for the year, the audit team have been asked to perform a proof in total. This will involve developing an expectation of the depreciation expense for the year and comparing this to the actual expense to assess if the client has calculated the depreciation charge for the year correctly.

What is the expected depreciation expense for the above assets for the year ended 31 December 20X4 and the resultant impact on non-current assets?

A. Depreciation should be $10,660, assets are understated
B. Depreciation should be $18,583, assets are understated
C. Depreciation should be $9,111, assets are overstated
D. Depreciation should be $12,549, assets are overstated