

ACC531: Auditing and Assurance Services  
Types of Misstatements and Their Effects

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## Case 1: Misclassification

Misclassified \$80 \_\_\_\_\_ expense from SG&A as Other Expenses.

### Original

ABC Corp. I/S Dec. 31, 20X1	
Revenue	\$1,000
Cost of Goods Sold	(400)
<hr/>	<hr/>
Gross Profit	\$600
SG&A Expense	(200)
<hr/>	<hr/>
<b>Operating Income</b>	<b>\$400</b>
Other Expenses	(50)
<hr/>	<hr/>
<b>Net Income</b>	<b>\$350</b>

### Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	_____
Cost of Goods Sold	_____
<hr/>	<hr/>
Gross Profit	_____
SG&A Expense	_____
<hr/>	<hr/>
<b>Operating Income</b>	_____
Other Expenses	_____
<hr/>	<hr/>
<b>Net Income</b>	_____

• **Overstated:** \_\_\_\_\_

• **Not affected:** \_\_\_\_\_

## Case 2: Capitalization of Expenses

Capitalized \$100 maintenance expense for Equipment as assets.

### Original

ABC Corp. I/S Dec. 31, 20X1	
Revenue	\$1,000
Maintenance Expense	(150)
Other Expenses	(250)
<b>Net Income</b>	<b>\$600</b>

### Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	_____
Maintenance Expense	_____
Other Expenses	_____
<b>Net Income</b>	_____

ABC Corp. B/S Dec. 31, 20X1	
<b>Assets</b>	
Cash	\$300
PPE, net	\$500
<b>Total Assets</b>	<b>\$800</b>
<b>Liabilities</b>	
Total Liabilities	\$200
<b>Equity</b>	
Retained Earnings	\$600
<b>Total L&amp;E</b>	<b>\$800</b>

ABC Corp. B/S Dec. 31, 20X1	
<b>Assets</b>	
Cash	_____
PPE, net	_____
<b>Total Assets</b>	_____
<b>Liabilities</b>	
Total Liabilities	_____
<b>Equity</b>	
Retained Earnings	_____
<b>Total L&amp;E</b>	_____

- Overstated: \_\_\_\_\_
- Not affected: \_\_\_\_\_

## Case 3: Accelerated Revenue Recognition

Recognized \$200 revenues without delivering products in this fiscal period.

### Original

ABC Corp. I/S Year 1	
Revenue	\$800
Expenses	(500)
<b>Net Income</b>	<b>\$300</b>

ABC Corp. I/S Year 2	
Revenue	\$1,200
Expenses	(500)
<b>Net Income</b>	<b>\$700</b>

### Misstated

ABC Corp. I/S Year 1	
Revenue	_____
Expenses	_____
<b>Net Income</b>	_____

ABC Corp. I/S Year 2	
Revenue	_____
Expenses	_____
<b>Net Income</b>	_____

- **Overstated (Y1):** \_\_\_\_\_
- **Understated (Y2):** \_\_\_\_\_