

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

Jaeyoon Yu, Ph.D.
Central Michigan University

Case 1: Misclassification

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

Original

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

Misstated

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

• **Overstated:** _____

• **Not affected:** _____

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Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	<u>\$1,000</u>
Cost of Goods Sold	<hr/>
<hr/>	<hr/>
Gross Profit	<hr/>
SG&A Expense	<hr/>
<hr/>	<hr/>
Operating Income	<hr/>
Other Expenses	<hr/>
<hr/>	<hr/>
Net Income	<hr/>

• **Overstated:** _____

• **Not affected:** _____

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Misstated

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

• **Overstated:** _____

• **Not affected:** _____

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Other Expenses	
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Net Income	

• Overstated: _____

• Not affected: _____

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Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	<u>\$1,000</u>
Cost of Goods Sold	<u>(400)</u>
<hr/>	<hr/>
Gross Profit	<u>\$600</u>
SG&A Expense	<u>(120)</u>
<hr/>	<hr/>
Operating Income	<u> </u>
Other Expenses	<u> </u>
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Net Income	<u> </u>

• Overstated: _____

• Not affected: _____

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Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	<u>\$1,000</u>
Cost of Goods Sold	<u>(400)</u>
<hr/>	<hr/>
Gross Profit	<u>\$600</u>
SG&A Expense	<u>(120)</u>
<hr/>	<hr/>
Operating Income	<u>\$480</u>
Other Expenses	<hr/>
<hr/>	<hr/>
Net Income	<u><hr/></u>

• Overstated: _____

• Not affected: _____

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Misstated

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Revenue	<u>\$1,000</u>
Cost of Goods Sold	<u>(400)</u>
<hr/>	<hr/>
Gross Profit	<u>\$600</u>
SG&A Expense	<u>(120)</u>
<hr/>	<hr/>
Operating Income	<u>\$480</u>
Other Expenses	<u>(130)</u>
<hr/>	<hr/>
Net Income	<u>_____</u>

• **Overstated:** _____

• **Not affected:** _____

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<hr/>	<hr/>
Operating Income	<u>\$480</u>
Other Expenses	<u>(130)</u>
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Net Income	<u>\$350</u>

- Overstated: OI
- Not affected: NI, Rev

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)
Net Income	\$600

Misstated

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

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

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

- Overstated: _____
- Not affected: _____

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Other Expenses	
Net Income	

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Assets	
Cash	\$300
PPE, net	\$500
Total Assets	\$800
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	
PPE, net	
Total Assets	
Liabilities	
Total Liabilities	
Equity	
Retained Earnings	
Total L&E	

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Other Expenses	(250)
Net Income	\$600

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ABC Corp. I/S Dec. 31, 20X1	
Revenue	\$1,000
Maintenance Expense	(50)
Other Expenses	(250)
Net Income	\$700

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

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

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Revenue	\$1,000
Maintenance Expense	(50)
Other Expenses	(250)
Net Income	\$700

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

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

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Cash	\$300
PPE, net	\$500
Total Assets	\$800
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	\$300
PPE, net	
Total Assets	
Liabilities	
Total Liabilities	
Equity	
Retained Earnings	
Total L&E	

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Revenue	<u>\$1,000</u>
Maintenance Expense	<u>(50)</u>
Other Expenses	<u>(250)</u>
Net Income	<u>\$700</u>

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Assets	
Cash	\$300
PPE, net	\$500
Total Assets	\$800
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	<u>\$300</u>
PPE, net	<u>\$600</u>
Total Assets	_____
Liabilities	
Total Liabilities	_____
Equity	
Retained Earnings	_____
Total L&E	_____

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Assets	
Cash	\$300
PPE, net	\$500
Total Assets	\$800
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	<u>\$300</u>
PPE, net	<u>\$600</u>
Total Assets	<u>\$900</u>
Liabilities	
Total Liabilities	<u> </u>
Equity	
Retained Earnings	<u> </u>
Total L&E	<u> </u>

- Overstated: _____
- Not affected: _____

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PPE, net	\$500
Total Assets	\$800
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

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Assets	
Cash	<u>\$300</u>
PPE, net	<u>\$600</u>
Total Assets	<u>\$900</u>
Liabilities	
Total Liabilities	<u>\$200</u>
Equity	
Retained Earnings	<u> </u>
Total L&E	<u> </u>

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- Not affected: _____

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Total Liabilities	\$200
Equity	
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Total L&E	\$800

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Assets	
Cash	\$300
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Total Liabilities	\$200
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Total L&E	\$900

- Overstated: _____
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Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$600
Total L&E	\$800

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	\$300
PPE, net	\$600
Total Assets	\$900
Liabilities	
Total Liabilities	\$200
Equity	
Retained Earnings	\$700
Total L&E	\$900

- Overstated: _____
- Not affected: _____

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Net Income	\$600

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Revenue	<u>\$1,000</u>
Maintenance Expense	<u>(50)</u>
Other Expenses	<u>(250)</u>
Net Income	<u>\$700</u>

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

ABC Corp. B/S Dec. 31, 20X1	
Assets	
Cash	<u>\$300</u>
PPE, net	<u>\$600</u>
Total Assets	<u>\$900</u>
Liabilities	
Total Liabilities	<u>\$200</u>
Equity	
Retained Earnings	<u>\$700</u>
Total L&E	<u>\$900</u>

- Overstated: NI, A
- Not affected: Rev

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)
Net Income	\$300

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

Misstated

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

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

- **Overstated (Y1):** _____
- **Understated (Y2):** _____

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)
Net Income	\$300

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

Misstated

ABC Corp.	
I/S	
Year 1	
Revenue	\$1,000
Expenses	_____
Net Income	_____

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

- **Overstated (Y1):** _____
- **Understated (Y2):** _____

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)
Net Income	\$300

Misstated

ABC Corp.	
I/S	
Year 1	
Revenue	\$1,000
Expenses	(500)
Net Income	_____

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

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

- **Overstated (Y1):** _____
- **Understated (Y2):** _____

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)
Net Income	\$300

Misstated

ABC Corp.	
I/S	
Year 1	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

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

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

- Overstated (Y1): _____
- Understated (Y2): _____

Case 3: Accelerated Revenue Recognition

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

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

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

Misstated

ABC Corp.	
I/S	
Year 1	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

ABC Corp.	
I/S	
Year 2	
Revenue	<u>\$1,000</u>
Expenses	<u> </u>
Net Income	<u> </u>

- Overstated (Y1): _____
- Understated (Y2): _____

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)
Net Income	\$300

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

Misstated

ABC Corp.	
I/S	
Year 1	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

ABC Corp.	
I/S	
Year 2	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u> </u>

- Overstated (Y1): _____
- Understated (Y2): _____

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)
Net Income	\$300

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

Misstated

ABC Corp. I/S Year 1	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

ABC Corp. I/S Year 2	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

- Overstated (Y1): _____
- Understated (Y2): _____

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)
Net Income	\$300

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

Misstated

ABC Corp. I/S Year 1	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

ABC Corp. I/S Year 2	
Revenue	<u>\$1,000</u>
Expenses	<u>(500)</u>
Net Income	<u>\$500</u>

- Overstated (Y1): Rev, NI
- Understated (Y2): Rev, NI