

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

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## 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/>	<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	<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/>
<b>Operating Income</b>	<u><b>\$480</b></u>
Other Expenses	<u>(130)</u>
<hr/>	<hr/>
<b>Net Income</b>	<u><b>\$350</b></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)
<b>Net Income</b>	<b>\$600</b>

### Misstated

ABC Corp. I/S Dec. 31, 20X1	
Revenue	<u>\$1,000</u>
Maintenance Expense	<u>(50)</u>
Other Expenses	<u>(250)</u>
<b>Net Income</b>	<b><u>\$700</u></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	<u>\$300</u>
PPE, net	<u>\$600</u>
<b>Total Assets</b>	<b><u>\$900</u></b>
<b>Liabilities</b>	
Total Liabilities	<u>\$200</u>
<b>Equity</b>	
Retained Earnings	<u>\$700</u>
<b>Total L&amp;E</b>	<b><u>\$900</u></b>

- **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)
<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	<u>\$1,000</u>
Expenses	<u>(500)</u>
<b>Net Income</b>	<b><u>\$500</u></b>

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

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