

ACC531: Auditing and Assurance Services  
Ch 7. Revenue and Collection Cycle – Case Study

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### Situation: ABC Corp.

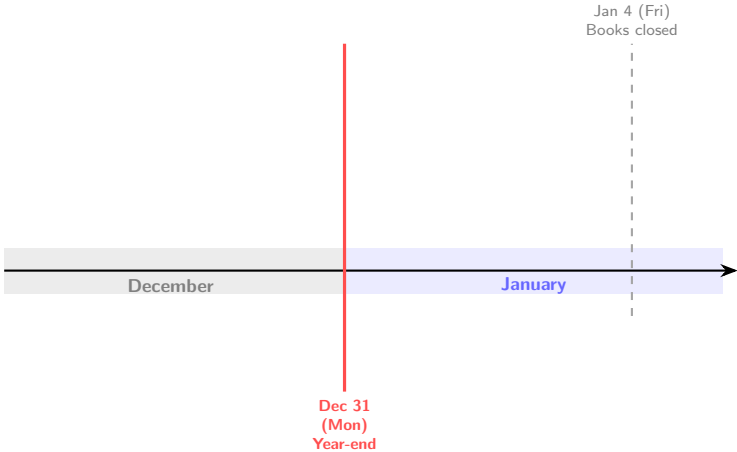
ABC Corp. closes its books **every Friday at 5 p.m.** to prepare weekly reports. This year, December 31 fell on a **Monday** — but the accounting was closed on **Friday, January 4** as usual.

All entries (sales invoices, cash receipts, shipping docs) were **dated December 31**, even though the transactions occurred January 1–4.

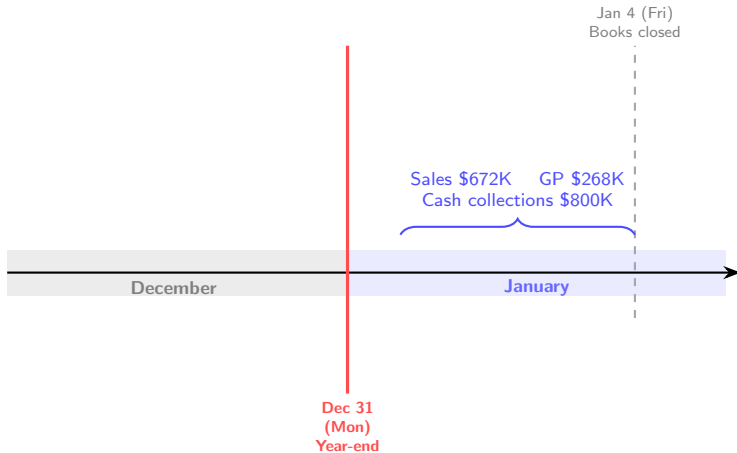
Amounts recorded in December (should be January):

- Sales = \$672,000    Gross Profit = \$268,000
- Cash collections from A/R = \$800,000

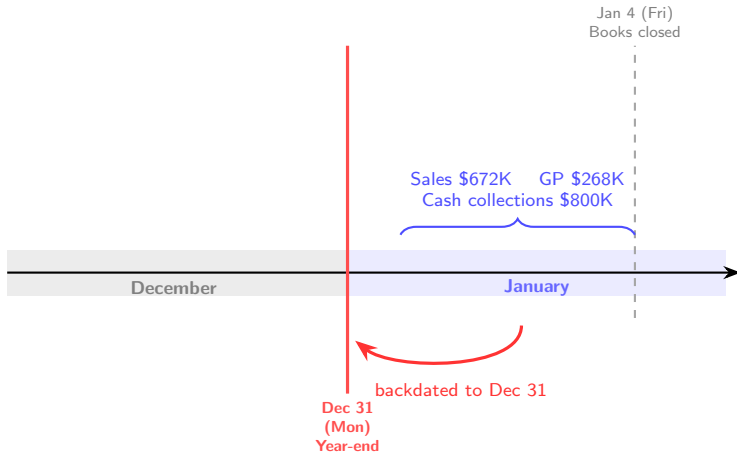
# Case — Timeline



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## Case — Analysis: Sales and Gross Profit

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Sales (\$672,000) & Gross Profit (\$268,000) were recorded in Dec but belong to Jan.

① What assertion is violated?

\_\_\_\_\_

② Is Inventory overstated or understated?

\_\_\_\_\_

③ Is Cost of Goods Sold overstated or understated?

\_\_\_\_\_

④ How much?

\_\_\_\_\_

⑤ What adjustment entry is needed?

## Case — Analysis: Sales and Gross Profit

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Sales (\$672,000) & Gross Profit (\$268,000) were recorded in Dec but belong to Jan.

❶ What assertion is violated?

Cutoff or Occurrence

❷ Is Inventory overstated or understated?

\_\_\_\_\_

❸ Is Cost of Goods Sold overstated or understated?

\_\_\_\_\_

❹ How much?

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❺ What adjustment entry is needed?

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403,200 (= 672,000 - 268,800)

⑤ What adjustment entry is needed?

## Case — Analysis: Sales and Gross Profit

Sales (\$672,000) & Gross Profit (\$268,000) were recorded in Dec but belong to Jan.

- 1 What assertion is violated?

**Cutoff or Occurrence**

- 2 Is Inventory overstated or understated?

**Understated**

- 3 Is Cost of Goods Sold overstated or understated?

**Overstated**

- 4 How much?

**403,200 (= 672,000 - 268,800)**

- 5 What adjustment entry is needed?

Sales (-R)	672,000
Inventory (+A)	403,200
Accounts Receivable (-A)	672,000
Cost of Goods Sold (-E)	403,200

## Case — Analysis: Cash Collections

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Cash collections (\$800,000) from A/R were recorded in December but the collections occurred in January.

❶ Is Cash overstated or understated?

\_\_\_\_\_

❷ Is Accounts Receivable overstated or understated?

\_\_\_\_\_

❸ What adjustment entry is needed?

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**Overstated**

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❸ What adjustment entry is needed?

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**Overstated**

❷ Is Accounts Receivable overstated or understated?

**Understated**

❸ What adjustment entry is needed?

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Cash collections (\$800,000) from A/R were recorded in December but the collections occurred in January.

- 1 Is Cash overstated or understated?

**Overstated**

- 2 Is Accounts Receivable overstated or understated?

**Understated**

- 3 What adjustment entry is needed?

Accounts Receivable (+A)	800,000
Cash (-A)	800,000

Auditors should

- understand the client's \_\_\_\_\_ — specifically, how and when the books are closed.
- sample transactions close to year-end and perform \_\_\_\_\_: compare the date on source documents to the date recorded in the system.
- perform \_\_\_\_\_ to detect any A/R balances that customers dispute as already paid.

Auditors should

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Auditors should

- understand the client's accounting system — specifically, how and when the books are closed.
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