



## FORENSIC ACCOUNTING VERSION

Fraudulent or incorrect transactions are presented below. Your job as a forensic accountant is to correct the financial statements and determine how income and total assets will change as a result of your corrections.

<b>RS Corporation</b>			
<b>Trial Balance as of December 31</b>			
<b>G/L Account Number</b>		<b>DR</b>	<b>CR</b>
1100	Cash	1,500	
1200	Marketable Securities	67,500	
1300	Accounts Receivable	10,000	
1400	Inventory	9,500	
1500	Supplies	13,000	
1600	Prepaid Insurance	6,000	
1800	Equipment (net)	43,500	
1850	Land	30,000	
1900	Intangible Assets	28,000	
2100	Accounts Payable		7,000
2700	Notes Payable		100,000
2800	Bonds Payable		30,000
3000	Common Stock, par \$1		25,000
3100	Additional Paid in Capital		30,000
3500	Retained Earnings		31,000
4000	Sales		100,000
5000	Cost of Goods Sold	56,000	
6100	Rent Expense	17,000	
6200	Utilities Expense	8,500	
6300	Advertising Expense	4,500	
6400	Salary Expense	26,000	
6850	Bad Debt Expense	2,000	
	<b>Total Debits/Credits</b>	<b>323,000</b>	<b>323,000</b>



## Forensic Version Transactions

- O-1 Customer is billed for a sale when the goods are not shipped. Sale amount \$5,000; cost of goods sold \$3,500
- O-2 Invoice included in current year's sales when goods are in transit with FOB destination. Sale amount \$2,700; cost of sale \$1,200
- O-3 Customer returned goods during the year, sale amount \$1,100; cost of sale \$750. Customer return is shown in the following year.
- O-4 Failed to accrue unpaid salaries at year end \$800
- O-5 Purchased equipment on January 1 for \$25,000. The equipment is 5 year class but management used a 10 year useful life (straight line depreciation) without good business reason
- O-6 Failed to accrue warranty expense; used 10% of sales last year, sales subject to warranty are \$100,000
- O-7 Invoices for sales dated January 2 are included in the year-end total, sale amount \$3,000, cost of goods sold \$1,700
- O-8 Invoices for sales of consigned goods are included in sales for the year. Sales amount \$2,800; cost of goods sold \$1,700
- O-9 Received an advance payment from a customer for services to be performed, \$1,800. The receipt was booked as revenue. To date, none of the services has been performed.
- O-10 Failed to write off receivables at year end \$2,100. The direct write off method is used.
- O-11 Failed to accrue 3 months of interest on note payable of \$100,000; interest rate is 3.6%
- O-12 Prepaid rent of \$4,000 paid on December 31 is booked as rent expense.
- O-13 Shipped goods to a wholly owned subsidiary but recorded it as a sale. Sale amount \$1,300, cost of goods sold \$750
- O-14 Receipts from customers on account recorded as cash revenues for services performed, \$1,700
- O-15 Consigned goods costing \$2,500 are included in the count of the ending inventory. The company uses a periodic inventory system.
- O-16 Failed to adjust prepaid insurance for 3 months of insurance expense (prepaid insurance is \$6,000 for a one year policy)
- O-17 Paid for advertising on June 30 \$4,500 for the next two years. The entire amount was booked as advertising expense.
- O-18 Ending inventory count was incorrect. The ending inventory was under-valued by \$1,000. The company uses a periodic inventory system.
- O-19 Lower of cost or market was not applied to the ending inventory. It was found that \$4,000 of inventory was damaged and is now worth \$3,200. The remainder of the inventory is correctly valued.
- O-20 Recorded sales to fictitious customers. Total of the sale amount \$7,000. Total cost of goods sold \$4,400.
- O-21 Granted \$3,000 of sales allowances but recorded them as a purchase of intangible assets.
- O-22 Cash payments on account to vendors recorded as purchases of inventory \$1,200



- O-23 Changed bad debt percentage to 2% of sales without good business reason. Last year's rate of 5% of sales is deemed appropriate (use sales of \$100,000)
- O-24 Recorded an interest payment of \$3,000 as a principal payment to bonds payable.
  
- I-1 Purchase of machinery of \$5,000 recorded as salary expense
- I-2 Research and development costs of \$4,000 are recorded as intangible assets
- I-3 Failed to capitalize operating lease with present value of \$4,000. Recorded the first payment of \$560 (including \$160 of interest) as rent expense.
- I-4 Failed to record amortization of intangible assets which cost \$24,000 and have a useful life of 10 years.
  
- F-1 Recorded a \$1,000 dividend as utilities expense.
- F-2 Failed to accrue interest on bonds payable of \$1,500.
- F-3 Failed to accrue three month's interest on the \$100,000 note payable with an APR of 4.8%



