

ANSWERS TO FORENSIC ACCOUNTING VERSION

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%



Answer key:

Transaction	Correction to:						
	Assets	Cost of Goods Sold	Other Expenses	=	Liabilities	Equity	Revenue
O-1	(1,500)	(3,500)					(5,000)
O-2	(1,500)	(1,200)					(2,700)
O-3	(350)	(750)					(1,100)
O-4			800		800		
O-5	2,500		(2,500)				
O-6			10,000		10,000		
O-7	(1,300)	(1,700)					(3,000)
O-8	(1,100)	(1,700)					(2,800)
O-9					1,800		(1,800)
O-10	(2,100)		2,100				
O-11			900		900		
O-12	4,000		(4,000)				
O-13	(550)	(750)					(1,300)
O-14	(1,700)						(1,700)
O-15	(2,500)	2,500					
O-16	(1,500)		1,500				
O-17	3,375		(3,375)				
O-18	1,000	(1,000)					
O-19	(800)	800					
O-20	(2,600)	(4,400)					(7,000)
O-21	(3,000)						(3,000)
O-22	(1,200)				(1,200)		
O-23	(3,000)		3,000				
O-24			3,000		3,000		
I-1	5,000		(5,000)				
I-2	(4,000)		4,000				
I-3	3,440		160		3,600		
I-4	(2,400)		2,400				
F-1			(1,000)		(1,000)		
F-2			1,500		1,500		
F-3			1,200		1,200		



Answers to general journal entries

Transaction	Accounts	Debit	Credit
O-1	Sales Revenue	5,000	
	Accounts Receivable		5,000
	Inventory	3,500	
	Cost of Goods Sold		3,500
O-2	Sales Revenue	2,700	
	Accounts Receivable		2,700
	Inventory	1,200	
	Cost of Goods Sold		1,200
O-3	Sales Revenue	1,100	
	Accounts Receivable		1,100
	Inventory	750	
	Cost of Goods Sold		750
O-4	Salary Expense	800	
	Salaries Payable		800
O-5	Depreciation Expense	2,500	
	Accumulated Depreciation		2,500
O-6	Warranty Expense	10,000	
	Warranty Payable		10,000
O-7	Sales Revenue	3,000	
	Accounts Receivable		3,000
	Inventory	1,700	
	Cost of Goods Sold		1,700
O-8	Sales Revenue	2,800	
	Accounts Receivable		2,800
	Inventory	1,700	
	Cost of Goods Sold		1,700



Answers to general journal entries (continued)

Transaction	Accounts	Debit	Credit
O-9	Sales Revenue	1,800	
	Unearned Revenue		1,800
O-10	Bad Debt Expense	2,100	
	Accounts Receivable		2,100
O-11	Interest Expense	900	
	Interest Payable		900
O-12	Prepaid Rent	4,000	
	Rent Expense		4,000
O-13	Sales Revenue	1,300	
	Accounts Receivable		1,300
	Inventory	750	
	Cost of Goods Sold		750
O-14	Sales Revenue	1,700	
	Accounts Receivable		1,700
O-15	Cost of Goods Sold	2,500	
	Inventory		2,500
O-16	Insurance Expense	1,500	
	Prepaid Insurance		1,500
O-17	Prepaid Advertising	3,375	
	Advertising Expense		337
O-18	Inventory	1,000	
	Cost of Goods Sold		1,000
O-19	Cost of Goods Sold	800	
	Inventory		800

Answers to general journal entries (continued)

Transaction	Accounts	Debit	Credit
O-20	Sales Revenue	7,000	
	Accounts Receivable		7,000
	Inventory	4,400	
	Cost of Goods Sold		4,400
O-21	Sales Revenue	3,000	
	Intangible Assets		3,000
O-22	Accounts Payable	1,200	
	Inventory		1,200
O-23	Bad Debt Expense	3,000	
	Allowance for Doubtful Accounts		3,000
O-24	Interest Expense	3,000	
	Bonds Payable		3,000
I-1	Machinery	5,000	
	Salary Expense		5,000
I-2	Research & Development Expense	4,000	
	Intangible Assets		4,000
I-3	Equipment	4,000	
	Lease Payable		4,000
	Lease Payable	400	
	Interest Expense	160	
	Rent Expense		560
I-4	Amortization Expense	2,400	
	Intangible Assets		2,400
F-1	Retained Earnings	1,000	
	Utilities Expense		1,000



Answers to general journal entries (continued)

Transaction	Accounts	Debit	Credit
F-2	Interest Expense	1,500	
	Interest Payable		1,500
F-3	Interest Expense	1,200	
	Interest Payable		1,200