**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.

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**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 grid**

Note how the correction to each fraudulent transaction will affect each element of the financial statements.

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**Note: If a correction increases a category, such as increases assets, expenses, or liabilities, put that amount in as a positive number. If a correction decreases a category, such as equity, revenues or cost of goods sold, put that amount in as a negative number.**

**General Journal**

Prepare the general journal entries required to correct the financial statements for the fraudulent transactions.

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