

# Overstatements and Understatements

## More Practice with Overs/Unders Using HO 1

For more practice with overstatements and understatements using Handout 1, here are the answers.

1. Only affects the trial balance.
2. Only affects the trial balance.
3. NNN
4. NNN
5. NNU
6. ONN
7. NOU
8. NNO
9. NON
10. UUU

## More Practice with Overs/Unders Using the Visualization Transactions

Below is a list of the transactions used in class for the visualizations (and the overstatements and understatements if these transactions had not been recorded).

- Purchased furniture & fixtures for cash and a note. (UUN)
- Paid rent for the month when the bill was received. (ONO)
- Collected cash from customers on account. (NNN)
- The Board of Directors declared a cash dividend. (NUN)
- The dividend payable was paid. (OON)
- Made a credit sale to a customer. (UNU)
- Paid employee salaries for the month. (ONO)
- Paid cash owed to satisfy an account payable. (OON)
- Purchased supplies on account. (UUN)
- Received cash from a customer in advance of earning it. (UUN)
- Sold land at a gain for cash and a note receivable. (UNU)

## New Overs/Unders

1. Alpha purchased equipment for cash but did not record it. Nor was an AJE recorded for the depreciation on the equipment.
2. Alpha received cash in advance from a customer for services to be performed in the future but failed to record the transaction. Alpha also failed to record an AJE. By year end, some of the services had not been performed.
3. Alpha failed to record a refund of cash to a customer for the return of merchandise sold during the year using the periodic inventory system.
4. Alpha issued common stock to an investor for cash. However, the transaction was erroneously recorded as a cash sale.

5. Alpha sold merchandise to Beta on credit with terms FOB Destination. As of December 31, the merchandise had not yet been received by Beta. Alpha recorded the sale and counted the merchandise in ending inventory (periodic system).
6. Alpha paid a dividend to shareholders (to satisfy dividends payable) but erroneously recorded it as cash paid to satisfy an account payable.
7. Alpha erroneously recorded an AJE for interest on a note payable instead of the correct AJE for interest on a note receivable. The interest won't be received by Alpha until next year.
8. Alpha recorded cash received in advance from a customer for services to be performed in the future as a debit to cash and credit to service revenue. Alpha also failed to record an AJE at year end for half the services performed.
9. Alpha recorded the prepayment of one year of rent as a debit to rent expense and a credit to accounts payable. Alpha failed to record an AJE at the end of the year when there were still two months of rent remaining in the lease.
10. Alpha failed to record the return of inventory to the manufacturer for a credit (periodic inventory system).
11. Alpha purchased merchandise on credit with terms FOB Destination. As of December 31, the merchandise had not yet been received by Alpha. Alpha recorded the purchase and included that merchandise in ending inventory (periodic system).
12. Alpha should have recorded the purchase of supplies on credit but didn't. As a result, no AJE was recorded at year end for the amount of those supplies used.
13. Alpha failed to record the prepayment of one year of rent paid. Alpha also failed to record an AJE at the end of the year when there was still nine months of time remaining on the lease.
14. Alpha sold merchandise to Beta on credit with terms FOB Shipping Point. As of December 31, the merchandise had not yet been received by Beta. Alpha did not record the sale and counted the merchandise in ending inventory (periodic inventory system).
15. Alpha paid cash to satisfy an account payable but erroneously recorded it as a dividend paid to shareholders. The declaration of the dividend was previously recorded.
16. Alpha made a cash sale but erroneously recorded it as a loan from a bank.
17. Alpha erroneously recorded an AJE for interest on a note receivable instead of the correct AJE for interest on a note payable. The interest won't be paid by Alpha until next year.
18. Alpha purchased equipment on credit but did not record it. No payments were made during the year and no AJE was recorded for the depreciation on the equipment.
19. Alpha failed to record an AJE for interest earned on a note receivable. The interest won't be received until next year.
20. Alpha received cash from a bank but erroneously recorded it as a cash sale instead of a loan that must be repaid next year (ignore interest).
21. Alpha paid cash for one year of rent in the third month of the year but erroneously recorded it as cash paid to satisfy an account payable. Alpha also failed to record the required AJE for the rent used during the year.
22. Alpha recorded the credit purchase of supplies as a debit to Supplies and a credit to Cash.
23. Alpha made a cash sale but erroneously recorded it as cash received from a customer as payment to satisfy an existing account receivable.
24. Alpha failed to record the return of inventory to the vendor for cash. Assume the use of the periodic inventory system.
25. Alpha failed to record the following AJE: The Sales account includes a \$5,000 payment received in advance from a customer. By year end, only \$3,000 of the merchandise had been delivered to the customer.
26. Alpha failed to record rent paid in advance to its landlord. By year end, all but one month of the rent had been used. [This omission includes both a transaction and an AJE.]
27. Failed to record AJE: Salaries are paid every Friday for a 5-day work week. The normal payroll is \$40,000. The year-end falls on a Tuesday this year.

28. Failed to record AJE: Examining the Rent Expense account, the controller finds that it includes a \$4,800 advance payment for 3 months' rent. The payment was made on November 1.
29. Failed to record AJE: There is \$500 of office supplies left in the storeroom. At the beginning of the year, there were no office supplies. During the year, \$3,500 of office supplies was purchased.
30. Failed to record AJE: Alpha received an order in May with a \$13,000 advance payment, which was credited to Unearned Revenue. In November, the last of the order was shipped to the customer.
31. Failed to record AJE: Alpha has a \$20,000, 9-month, 12% note payable outstanding at the end of the year. The note was issued on October 1. The interest is to be paid when the note is paid.
32. Failed to record AJE: Examining the Unearned Revenue account, Alpha's controller finds that it includes \$6,000 for 12 months of rent received from one of the tenants on October 1.
33. Alpha recorded a cash purchase of inventory (using the periodic inventory system) but erroneously recorded it as a debit to Supplies and a credit to Accounts Payable. The inventory was counted in ending inventory.
34. Alpha made a cash sale to a customer but erroneously recorded it as a payment to satisfy an existing account receivable.
35. Alpha failed to record a cash sale.
36. Alpha recorded the purchase of equipment for cash as a debit to Equipment and a credit to Accounts Payable.
37. Alpha failed to record the purchase of merchandise (inventory) on account using the periodic inventory system.
38. Cash received from a customer in payment of the existing account is recorded by Alpha as if the receipt was for a current period sale.
39. Alpha recorded a credit sale as a debit to Cash and credit to Sales.
40. Alpha failed to record depreciation at the end of the current period.

1. ONO
2. UUU
3. ONO
4. NNO
5. ONO
6. NNN
7. UOU
8. NUO
9. OOU
10. NOU
11. OON
12. UUO
13. ONO
14. UNU
15. NNN
16. NOU
17. OOU
18. UUO
19. UNU
20. NUO
21. UUO
22. UUN
23. UNU
24. UNU
25. NUO

26. ONO
27. NUO
28. UNU
29. ONO
30. NOU
31. NUO
32. NOU
33. OOO
34. UNU
35. UNU
36. OON
37. NUO
38. ONO
39. NNN
40. ONO

For more practice, combine any two of the above and add your own dollar amounts. For example, combining #40 and #2 with dollar amounts creates the following problem:

Alpha failed to record an AJE for depreciation of \$1,000 and cash of \$1,200 received in advance from a customer for services to be performed in the future (\$300 had not been earned by the end of the year, and an AJE was not recorded).

Answer: UUU

The following entries were not recorded.

Depreciation Expense	1,000	
Accum. Depreciation		1,000
Cash	1,200	
Unearned Service Revenue		1,200
Unearned Service Revenue	900	
Service Revenue		900