Tutorial 5 (Week 6) – Financial Statements Integrity

Errors and fraudulent transactions affect financial statements, and will impact the users that rely on these financial statements for decision making. Refer to the financial statements which you have created in Tutorial 4. Now, consider the various **independent** scenarios below that occurred in the financial year 2025:

(a) The office that Hunt3X rented on 1 July 2025 (refer to Tutorial 3 part (a)) was in fact for two years instead of 1 year.

(b) In an attempt to boost its revenues, Hunt3X had previously recorded a cash deposit it received from a customer in the amount of $9,000 into the "Sales Revenue" account. The cash deposit is refundable to the customer within a year.

(c) In an attempt to reduce reported expenses, Hunt3X had not recognized $5,000 of cost of goods sold, even though the inventory was sold and sales revenue was already recognized.

(d) In December, Hunt3X had received an invoice in the amount of $1,560 from a social media company for a 6 months marketing campaign that ends on 31 January 2026. Hunt3X decided to hold off on recording the invoice till 2026, and did not recognize any related expense in 2025.

(e) Hunt3X's finance manager inflated the value of a prior PPE purchase (refer to Tutorial 2, part (h)) in order to embezzle funds from the company. A total of $100,000 in fictitious PPE was recorded, while the corresponding amount of cash was misappropriated by the finance manager and his accomplices in the company. (Ignore depreciation effects)

(f) Hunt3X incorrectly classified a $50,000 long-term debt as share capital.

Required for Tutorial 5:

Treat each scenario described above **independently**, and determine the following for **each** scenario:

(1) Prepare the hypothetical correcting journal entry under each scenario.

(2) In Tutorial 4 Part (5), you had calculated the financial ratios for the financial year 2025 (regard this now as the ratios which contain the error or fraudulent information). Under each of the scenario given above, recalculate the same ratios after correcting for the effect of the error or fraudulent information. Compare the two ratios and explain briefly how users of Hunt3X's financial performance would be affected under each scenario when they use the ratios to evaluate the company's performance. (Ignore any tax effect)

~ End of Tutorial 5 ~