Solution:

(1)

Understating the inventory by $\$20{,}000$ leads to over stating of cost of goods sold in 2015 by $\$20{,}000$.

This means that the gross income reported would be understated by $\$20{,}000$.

Thus, the taxable income is under-stated by $\$20{,}000$. This means that the taxes are under-stated by $\$8{,}000$ (40% tax rate assumed).

The net income is under-stated by $\$12{,}000$. Thus, the retained earnings is also under-stated by $\$12{,}000$.

(2)

The reverse will happen of the above. This is because the beginning inventory for 2016 will be priced under-stated.

However, the overall balance sheet remains same due to the cancellation of these intermediate effects.