

Marilyn Terrill is the senior auditor for the audit of Uden Supply Company for the year ended December 31, 20X4. In planning the audit, Marilyn is attempting to develop expectations for planning analytical procedures based on the financial information for prior years and her knowledge of the business and the industry, including:

1. Based on economic conditions, she believes that the increase in sales for the current year should approximate the historical trend.
2. Based on her knowledge of industry trends, she believes that the gross profit for 20X4 should be about 2 percent less than the percentage for 20X3.
3. Based on her knowledge of regulations, she is aware that the effective tax rate for the company for 20X4 has been reduced by 5 percent from that in 20X3.
4. Based on a review of the general ledger, she determined that average depreciable assets have increased by 10 percent.
5. Based on her knowledge of economic conditions, she is aware that the effective interest rate on the company's line of credit for 20X4 was approximately 12 percent. The average outstanding balance of the line of credit is \$2,300,000. This line of credit is the company's only interest-bearing debt.
6. Based on her discussions with management and her knowledge of the industry, she believes that the amount of other expenses should be consistent with the trends from prior years.

Comparative income statement information for Uden Supply Company is presented in the accompanying table.

UDEN SUPPLY COMPANY Comparative Income Statements Years Ended December 20X1, 20X2, and 20X3 (Thousands)				
	20X1 Audited	20X2 Audited	20X3 Audited	20X4 Expected
Sales	\$ 8,700	\$ 9,400	\$ 10,100	
Cost of goods sold	6,000	6,500	7,000	
Gross profit	2,700	2,900	3,100	
Sales commissions	610	660	710	
Advertising	175	190	202	
Salaries	1,061	1,082	1,103	
Payroll taxes	184	192	199	
Employee benefits	167	174	181	
Rent	60	61	62	
Depreciation	60	63	66	
Supplies	26	28	30	
Utilities	21	22	23	
Legal and accounting	34	37	40	
Miscellaneous	12	13	14	
Interest expense	210	228	240	
Net income before taxes	80	150	230	
Income taxes	18	33	50	
Net income	\$ 62	\$ 117	\$ 180	

Required:

Develop the expected amounts for 20X4 for each of the income statement items (based on what she believes in 1-6 above). Uden's unaudited financial statements for the current year show a 31 percent gross profit rate. Assuming that this represents a misstatement from the amount that you developed as an expectation, calculate the estimated effect of this misstatement on net income before taxes for 20X4.