INSTRUCTIONS:

There are a total of 61 questions on this quiz. Each question has a value of four points.

You may choose ***any*** 25 questions to answer. If you answer more than twenty five you will NOT receive any extra credit and only the first twenty five questions that you have selected to answer will be graded.

Your maximum score is 100 points. This is a take home quiz. Your Scantron (with your NAME on it!) is due at our next class meeting (December 3). Remember, no class November 26; Happy Thanksgiving!

MULTIPLE CHOICE

1. Which of the following is an example of asset overstatement fraud?
   a. Not recording contingent liabilities
   b. Under recording debt
   c. Overstating fixed assets
   d. Under recording payroll taxes

2. Which of the following is an example of asset overstatement fraud?
   a. Not recording contingent liabilities
   b. Under recording debt
   c. Overstating fixed assets
   d. Under recording payroll taxes

3. In dealing with capitalized costs, you might find deferred charges of interest that exist on the balance sheet. What should you do?
   a. Assume they are accurately capitalized
   b. Assume guilt, then try to prove innocence
   c. Look for ways the company could have accidentally deferred the charges
   d. Deferred charges of interest are perfectly normal on the balance sheet

4. Which of the following expenditures would be most suspicious if it were capitalized?
   a. Equipment purchases
   b. Computer purchases
   c. Prepaid expenses
   d. Salaries for chief officers

5. Which of the following is not used to track changes in fixed account asset balances?
   a. Sequential acid ratio testing
   b. Horizontal analysis
   c. Cash flow statement analysis
   d. Period-to-period comparisons of account balances

6. Which of the following ratios will rise in a liabilities fraud

a. Accounts payable / purchases
b. Interest expense / notes payable
c. Total liabilities / total assets
d. Lease expense / total fixed assets

7. Fraudulent inventory purchase transactions involving inventory and payable accounts might look like any of the following except:
   a. Purchases not recorded
   b. Purchased amounts overstated
   c. Purchase returns and discounts overstated
   d. Recorded payables in subsequent periods

8. Which of the following is not a symptom of liability fraud?
   a. Decrease in warranty expense estimate.
   b. Accounts payable grow faster than cost of goods sold & inventory.
   c. Unusual increase in current ratio.
   d. Decrease in accruals & unearned revenue from prior periods.

9. When examining whether a company has under recorded accounts payable, each of the following ratios will be helpful EXCEPT:
   a. Acid-test ratio
   b. Accounts Payable / Purchases
   c. Accounts Payable / Cost of Goods sold
   d. Unearned revenue / Accounts Payable
   e. Current Ratio

10. Which of the following is not a way to detect disclosure fraud?
    a. A tip of a complain
    b. Making inquiries of management regarding related-party transactions, and other liabilities
    c. Identifying inconsistencies between disclosures and information in the financials
    d. Searching for analytical symptoms in the financial statements

11. Which of the following factors does not make frauds more difficult to detect?
    a. Collusion with outsiders
    b. Forgery, which GAAS auditors are not trained to detect
    c. Off-book frauds in which no records on the company's books are fraudulent
    d. None of the above.

12. All of the following are examples of asset fraud except:
    a. Using market values instead of book values to record assets
    b. Not recording depreciation
    c. Purchases and sales of assets using "straw buyers"
    d. Underreporting accounts payable

13. Which of the following is not a manner in which companies have overstated their assets in a merger or acquisition?

a. Using market values instead of book values
b. Having the wrong entity act as purchaser
c. Improperly allocating book values to assets
d. None of the above, all are true.

14. Recognizing unearned revenue as earned revenue is an example of what type of fraud?
    a. Liability understatement
    b. Revenue understatement
    c. Cost of Goods Sold understatement
    d. Inventory overstatement

15. Which of the following assets is difficult to overstate?
    a. Fixed Assets
    b. Marketable securities
    c. Cash
    d. Accounts Receivables

16. All of the following except one can be used to track changes in fixed account asset account balances?
    a. Sequential acid ratio testing
    b. Horizontal analysis
    c. Cash flow statement analysis
    d. Period to period comparisons of account balances

17. Which of the following is most critical in detecting liability frauds?
    a. documentation evidence
    b. interviews
    c. lifestyle changes
    d. overstated liabilities

18. Red flags of company misrepresentations include all but one of the following
    a. Companies with unrealistically large growth in assets, revenue or profits
    b. Companies with a principal who has been involved in a bankruptcy
    c. Companies whose success depends on a special tax loophole or tax avoidance scheme
    d. Companies with contingent liabilities reported that are reasonably possible would create a loss for the company

19. Capitalized costs that should be expensed ____.
    a. Are most often difficult to detect.
    b. Usually occur in one large transaction.
    c. Overstate net income by the same amount of the capitalized costs.
    d. Are usually written off shortly after the transactions take place.

20. In liability fraud, liabilities are most often
    a. Understated

b. Overstated
c. Recorded as assets
d. Recorded as expenses

21. Which of the following is not a method used to understate liabilities?
    a. understate accounts payable
    b. understate accrued liabilities
    c. recognize earned revenue as unearned revenue
    d. under record future obligations

22. In asset fraud, assets are most often:
    a. Understated
    b. Overstated
    c. Recorded as liabilities
    d. Recorded as revenues

23. Which is not a symptom of liability fraud?
    a. Decrease in warranty expense estimate
    b. Accounts payable grow faster than cost of goods sold & inventory
    c. Unusual increase in current ratio
    d. Decrease in accruals & unearned revenue from prior periods

24. Which of the following is not a method used to overstate assets?
    a. Inflate assets in mergers, acquisitions, and restructurings
    b. Record newly acquired assets at cost instead of fair market value in a health economy
    c. Capitalize an asset that should be expensed
    d. Overstating cash and marketable securities

25. Which of the following statements is false?
    a. Frauds that entail understating liabilities are some of the easiest frauds to detect.
    b. An analytical symptom for liability fraud is that account balances appear too low.
    c. A seasoned fraud examiner will look for unusual liability account changes to detect fraud
    d. Companies in trouble have a strong motivation to understate liabilities.

26. In asset fraud, assets are always
    a. Understated
    b. Overstated
    c. Recorded as liabilities
    d. Recorded as revenues

27. Performing a current ratio can help discover:
    a. Long-term debt relationships
    b. Inadequate Disclosure fraud
    c. Liability fraud
    d. Asset fraud

28. All of the following are analytical symptoms for unrecorded liabilities except
    a. The amount of interest expense doesn't coincide with the debt recorded

b. Significant decreases in recorded debt
c. Significant purchases of assets with no recorded debt
d. Unearned revenues that appear too low
e. All of the above are analytical symptoms for unrecorded liabilities

29. Inadequate disclosure occurs when
a. Companies falsify the financial statements
b. A press release falsely claims new products will be released next week
c. A company recalls products without notifying investors first
d. A company overstates liabilities

30. What type of disclosure fraud is perpetrated when a company fails to disclose significant events?
a. Misrepresentation of the company or its products
b. Misrepresentation in financial reports
c. Misleading statement footnotes
d. None of the above.

31. Which of the following are ways/opportunities to overstate assets?
a. In mergers and restructuring
b. Through inter-company accounts
c. In accounts receivable and inventory
d. All of the above.

32. Companies all but which one of the following instruments to finance their operation?
a. Earnings
b. Dividends
c. Debt
d. Owner investments

33. An auditor's inquiries of management might include which of the following?
a. Related-party transactions
b. Contingent liabilities
c. Contractual obligations
d. All of the above are correct

34. What is the best way to find under-recorded contingent liabilities?
a. Examine debt ratio
b. Examine current ratio
c. Look for documentary symptoms
d. Look for lifestyle symptoms

35. The following are all Inventory/Cost of Goods Sold fraud symptoms except:
a. Inventory and/or cost of goods sold documents are missing
b. Reported "purchases" appear too high to inventory levels
c. New or unusual vendors do not go through the regular-approval process
d. Reported "purchase returns" appear too high or are increasing too rapidly

36. Analytical symptoms for unrecorded notes payable involve which of the following?

a. Significant increase in recorded debt
b. Unreasonable relationships between interest expense and recorded liabilities
c. Reported notes appear too high
d. None of the above.

37. Which of the following frauds is considered the most difficult to find, usually requiring a tip?
 a. financial statement fraud
 b. employee fraud
 c. vendor fraud
 d. disclosure fraud

38. With many financial statement frauds, (Net Income-Cash from Operations)/Total Assets will ____ over time:
 a. Stay around zero.
 b. Be positive.
 c. Be negative.
 d. Can't be determined.

39. In some ways, asset overstatements are easier to detect than other financial statement frauds because
 a. Overstated assets are always included on the balance sheet
 b. Overstated assets have better document evidence
 c. Assets can be physically labeled by the employer
 d. Understated liabilities use a series of smaller entries

40. Which type of financial statement fraud almost never causes analytical symptoms and only sometimes creates documentary symptoms?
 a. Inventory Fraud
 b. Revenue Fraud
 c. Liability Fraud
 d. Disclosure Fraud

41. All of the following are ways to detect disclosure fraud except:
 a. A tip or a complaint
 b. Making inquiries of management regarding related-party transactions, and other liabilities
 c. Identifying inconsistencies between disclosures and information in the financials
 d. Searching for analytical symptoms in the financial statements

42. When analyzing the balance sheet for under recorded accounts payable which of the following ratios is applicable?
 a. Long-term debt/Stockholder's Equity
 b. Warranty Expense/Sales
 c. Current Ratio
 d. Various accrual/Related expenses

43. With liability fraud, which is most likely to occur?
 a. Liabilities will be overstated

b. Interest expense will increase
c. Items will be expensed rather than capitalized
d. Net income will be understated
e. Balances in general that relate to this fraud will tend to be low

44. Which of the following is the least likely way of determining the existence of a merger fraud?
    a. Understanding the context of the merger.
    b. Observing analytical symptoms.
    c. Determining if the merger was done in accordance with GAAP.

45. Which of the following is an example of liability fraud?
    a. Understanding accounts payable
    b. Improper capitalizing or expensing
    c. Overstating accounts receivable
    d. Recording fictitious sales

46. The most difficult account for management to intentionally misstate is:
    a. Income Taxes Payable
    b. Cash
    c. Securities
    d. Prepaid expenses

47. A form 1099 with no withholdings where withholdings should exist may be a fraud symptom for which liability account?
    a. Accounts Payable
    b. Unearned Revenues
    c. Contingent Liabilities
    d. Accrued Liabilities

48. Which of the following is usually the hardest fraud to detect?
    a. Liability fraud.
    b. Revenue fraud.
    c. Asset fraud.
    d. Disclosure fraud.

49. In the past, companies have committed fraud through mergers and acquisitions by:
    a. Using market values instead of book values
    b. Improperly allocating book values to assets
    c. Having the wrong entity act as the purchaser
    d. All of the above.

50. You observe that a company's current ratio is dramatically increasing. This may indicate fraud in that:
    a. Contingent liabilities are not recorded.
    b. Accounts payable is understated.
    c. Expenses have been inappropriately capitalized as assets.
    d. Fixed assets are overstated.

51. Which is NOT a method for understating liabilities?

a. Record unearned revenues as earned revenues
b. Recording payments in later periods, when they are actually paid
c. Borrow against equities in assets
d. Write off liabilities

52. Which is the correct order to pursue to analyze analytical symptoms: I- Determine whether the symptoms exist, II- Ask what type of Fraud could be occurring, III- Learn if the symptom signals fraud, an abnormality, or something else, IV- Identify what symptoms frauds would generate
    a. I, II, IV, III
    b. II, IV, III, I
    c. II, IV, I, III
    d. IV, II, I, III

53. Companies use all but one of the following instruments to finance operations:
    a. Earnings
    b. Dividends
    c. Debt
    d. Owner investments

54. Which of the following is NOT useful in detecting fraud that non-existent assets are recorded in statement accounts?
    a. Total fixed assets/total assets
    b. Total fixed assets/long-term debt
    c. Individual fixed asset account balances/total fixed assets
    d. Fixed asset/total current liabilities

55. What is the first step in identifying frauds involving liabilities?
    a. Identify transactions that involve liabilities that can be understated
    b. Review asset listings
    c. None of the above.
    d. All of the above.

56. "Recording unearned revenues as earned revenues" is a fraud scheme, involving which of the following accounts:
    a. Accounts Payable
    b. Accounts Receivable
    c. Notes Payable
    d. None of the above.

57. Which of the following would be a symptom of Accounts Payable fraud?
    a. Discrepancies in cut-off tests
    b. Discussion of Contingent liabilities in Board Minutes
    c. Liens on properties that are supposed to be paid for
    d. None of the above.

58. Which of the following is NOT a symptom of Accrued Liability Fraud?
    a. Loans with no interest

b. Leased buildings with no rent or lease expense
c. Vendor statements with no recorded liability
d. All of the above are symptoms of Accrued liability fraud

59. Which of the following are NOT a fraud scheme involving an asset account?
    a. Inappropriately capitalizing assets as marketing costs
    b. Using market values rather than book values to record assets
    c. Not recording depreciation
    d. All of the above are schemes involving asset accounts

60. The fixed asset relationships for identifying the analytical symptoms of fraud can be examined by all of the following rations EXCEPT:
    a. Total Fixed Assets / Long Term Debt
    b. Sales / Total Fixed Assets
    c. Total Fixed Assets / Long Term Debt
    d. Accumulated Depreciation/ Depreciable Assets

61. Which of the following is NOT a symptom of Accounts Payable Fraud?
    a. More inventory counted than identified through purchasing and inventory records
    b. Discrepancy in cut off tests
    c. Loans with no interest
    d. Amounts listed on vendor statements not recorded as purchases