# *Forensic Accounting and Fraud Examination 2nd edition Kranacher Test Bank*

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# CHAPTER 2

## Module 1

1. A number of theories about why the vast majority of people do not commit crime have been set forth over time. Which of the following is NOT one of the reasons cited in the text?

   A. Social conditioning/parental upbringing
   B. Fear of punishment
   C. To act in a just and moral manner according to society's standards
   D. Desire for rewards

2. The term *occupational fraud and abuse* is defined as:

   A. The use of one's occupation for status enrichment through misuse or misapplication of the employing organization's resources or assets.
   B. The use of one's occupation for personal enrichment through the unintentional misuse or misapplication of the employing organization's resources or assets.
   C. The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of a different organization's resources or assets.
   D. The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

3. Four common elements to occupational fraud and abuse schemes were first identified by ACFE in its 1996 *Report to the Nation on Occupational Fraud and Abuse.* Which of the following does not contain all four elements?

   A. The activity is clandestine, violates the employee's fiduciary duties to the organization, is committed for the purpose of direct or indirect financial benefit to the employee, may or may not result in costs to the employing organization's assets, revenues, or reserves.
   B. The activity is clandestine, violates the employee's fiduciary duties to the organization, is committed for the purpose of direct or indirect financial benefit to the employee, and is a violation of state and/or federal law(s).
   C. The activity is clandestine, violates the employee's fiduciary duties to the organization, is committed for the purpose of direct or indirect financial benefit to the employee, and costs the employing organization assets, revenues, or reserves.
   D. The activity is clandestine, violates the employee's non-fiduciary duties to the organization, is committed for the purpose of direct or indirect financial benefit to the employee, and costs the employing organization assets, revenues, or reserves.

4. The term white-collar crime was coined by _____ in 1939, when he provided the following definition: crime in the upper, white-collar class, which is composed of respectable or at least respected, business and professional men.

   A. Steve Albrecht
   B. Edwin H. Sutherland



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C. Joseph T. Wells
D. Donald R. Cressey

5. Organizational crime occurs when companies, corporations, not-for-profits, government bodies, and otherwise legitimate and law-abiding organizations are:

A. involved in unethical conduct
B. involved in organized crime
C. involved in a civil offense
D. involved in a criminal offense

6. Unfair pricing, unfair business practices, violation of the FCPA and tax evasion are examples of:

A. Ordinary corporate behavior
B. Occupational fraud and abuse
C. Organizational crime
D. More of a problem nationally than internationally

7. Civil litigation issues such as damage claims, lost wages, disability, wrongful death, assets and business valuations, costs and lost profits associated with construction delays or business interruptions, insurance claims, intellectual property infringement, environmental issues, tax claims are examples of the kinds of issues for which:

A. The RICO Act was adopted
B. Forensic litigation advisory services are offered by forensic accountants
C. The Sarbanes-Oxley Act was adopted
D. SAS99 was adopted

8. Money laundering, mail and wire fraud, criminal conspiracy and racketeering are examples of crimes associated with:

A. The fraud triangle
B. A private or civil wrong or injury, other than breach of contract, for which the law will provide a remedy in the form of an action for damages
C. Organized crime
D. Occupational fraud and abuse

9. *Black's Law Dictionary* defines a tort as:

A. A private or civil wrong or injury, other than breach of contract, for which the law will provide a remedy in the form of an action for damages
B. An unlawful conduct of business affairs with funds derived from illegal acts
C. When two or more people intend to commit an illegal act and take some steps toward its implementation
D. Non-compliance with agency, regulatory, and court requirements



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10. The legal standard for the tort of negligence does NOT include the following element:

A. Damages
B. Duty
C. Cause in Fact
D. Intent

11. A critical aspect of civil litigation for the forensic accountant and fraud examiner is the understanding that:

A. Both sides (plaintiff and defendant) are expected to tell their story
B. Both sides (plaintiff and defendant) are expected to present only facts in court
C. Both sides (plaintiff and defendant) are expected to countersue each other as a strategy
D. Both sides (plaintiff and defendant) are expected to negotiate a settlement

Module 2

12. In the fraud perpetrator profile presented in the text, which set of characteristics summarizes the typical fraud perpetrator?

A. Male, middle-aged to retired, with the company for five or more years, never charged or convicted of a criminal offense, well educated, accountant, upper management, or executive, generally acts in collusion with others
B. Male, middle-aged to retired, with the company for five or more years, previously charged or convicted of a criminal offense, well educated, accountant, upper management, or executive, acts in alone
C. Male, middle-aged to retired, with the company for five or more years, never charged or convicted of a criminal offense, well educated, line employee or lower management, or executive, acts in collusion with others
D. Male, middle-aged to retired, with the company for five or more years, never charged or convicted of a criminal offense, well education, accountant, upper management, or executive, acts alone

13. One of the interesting aspects of the characteristics of fraud perpetrators is that they do not typically have _____.

A. Respect within their community
B. Much knowledge of accounting standards
C. A criminal background
D. A college degree

14. Edwin H. Sutherland (1883-1850), a criminologist, coined the term *white-collar crime* in 1939 and later developed the theory of _____ whose basic tenet is that crime is learned.

A. Constructivist association



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B. Fraud triangle association
C. Attributional association
D. Differential association

15. Donald R. Cressey (1919-1987) used his doctoral dissertation to study embezzlers, whom he called "trust violators." Upon completion of his research, he developed what still remains as the classical model for the occupational offender. In 1991, Dr. Steve Albrecht organized Cressey's three conditions into a tool that has become known as the "fraud triangle." Which answer below constitutes the three legs of the fraud triangle?

A. Perceived opportunity, perceived motive, and intellectualization
B. Perceived pressure, perceived isolation, and rationalization
C. Perceived motive, perceived opportunity, and minimization
D. Perceived pressure, perceived opportunity, and rationalization

16. Cressey identified six categories of non-shareable financial pressures that prompted embezzlers to act. These included violation of ascribed obligations, business reversals, physical isolation, status gaining, employer-employee relationships, and _____.

A. Financial greed
B. Problems resulting from personal failure
C. Depression or other mental health issues
D. Amoral value system

17. In Cressey's view, there were two components of perceived opportunity necessary to commit a trust violation: _____ and technical skill.

A. General information
B. Accounting know-how
C. Observed gaps in internal controls
D. Knowledge of financial fraud schemes

18. Fraud deterrence begins _____.

A. In the existence of sound internal controls
B. In the organizational mission and values
C. In the employee's mind
D. In the beliefs of the culture at large

19. When considering antifraud measures within an organization, the axiom that "fraud deterrence begins in the employee's mind" most closely means that there has to be a _____.

A. Perception of detection
B. Perception of punishment (if caught)
C. Perception of fairness within all levels of the organization



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D. Perception of shared values within the organization

20. Findings in the ACFE's 2016 *Report to the Nations* suggest that organizations that lacked _____ were more susceptible to asset misappropriation schemes.

A. Employee perception of detection
B. A proper tone at the top
C. Internal controls
D. A reporting mechanism

21. Cressey observed that rationalization as it applies to occupational fraud occurs _____ the crime.

A. *After*
B. *Before*
C. *While*
D. *Seldom*

22. One of the most fundamental observations of the Cressey study was the _____, i.e., that the conditions under which a trust violation occurs necessitate all three elements (of what was later named the fraud triangle).

A. Conjuncture of events
B. Timing of events
C. Circumstances of events
D. Sequence of events

23. Findings in the ACFE's 2016 *Report to the Nations* indicate that at least one warning sign had been displayed by the perpetrator before the fraud was detected in more than 91% of cases. In 57% of cases, two or more such red flags were seen. According to the study, the six most commonly observed behavioral red flags were: living beyond means, financial difficulties, unusually close association with a vendor or customer, a "wheeler-dealer" attitude, recent divorce or family problems, and _____.

A. Control issues or unwillingness to share duties
B. Addiction problems
C. Irritability, suspiciousness, or defensiveness
D. Excessive pressure from within the organization

Module 3

24. While Dr. Steve Albrecht's research findings on fraud perpetrator characteristics were very similar to the non-shareable problems and rationalizations identified by Cressey, Albrecht introduced the _____ into the actions of the fraudsters.

A. The role of compensation



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B. The role of the organization
C. The role of social isolation
D. The role of (an unfair) performance evaluation system

25. Dr. Steve Albrecht substituted _____ for rationalization in the development of the "Fraud Scale."

A. Emotional distress
B. Greed
C. Personal integrity
D. Sociopathic tendencies

26. In a 2004 CPA Journal article, Wolfe and Hermanson argue that the fraud triangle could be enhanced to improve both fraud prevention and detection by considering a fourth element, _____.

A. Internal control environment
B. Myers-Briggs Personality Types
C. The role of arrogance
D. Individual capability

27. In 2010, Jonathan Marks argued for the role of _____ in fraud.

A. Age
B. Myers-Briggs Personality Types
C. Arrogance (or lack of conscience)
D. Garden variety greed

28. Crowe expanded the fraud triangle into a pentagon by adding _____ and _____.

A. Compensation equity and cultural norms
B. Arrogance and competence
C. Myers-Briggs Personality Types and educational attainment
D. Internal control environment and organizational pressure

29. Significant research suggests that increasing _____ may be the best way to deter employee theft.

A. The threat of punishment by the employer
B. The presence of internal security
C. The perception of detection
D. The frequency of fraud prevention education

Module 4



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30. In addition to the fraud triangle, typical motivations of fraud perpetrators may be identified with the acronym M.I.C.E. This stands for money, ideology, _____, and ego/entitlement.

A. Coercion
B. Conversion
C. Collusion
D. Concealment

31. According to the AICPA, the "Achilles Heel" of an organization's antifraud efforts is _____ and _____.

A. An amoral corporate culture; an arrogant CEO
B. Missing internal controls; lack of management review
C. Collusion; management override
D. A weak board of directors; an arrogant CEO

Module 5

32. In contrast to the fraud triangle which US courts have deemed to be more of a theoretical concept rather than a set of measurable standards or a specific, practical methodology for arguing that fraud occurred, the triangle of fraud action can be used in developing prosecutorial evidence. In particular, the element of _____ provides a compelling argument that the act was intentional.

A. The Act
B. Conversion
C. Opportunity
D. Concealment

33. The triangle of fraud action is sometimes referred to as _____.

A. The fraud triangle
B. The elements of fraud
C. The fraud diamond
D. Crowe's Fraud Pentagon™



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