

Chapter 2--Why People Commit Fraud

Student: _____

1. Which of the following is NOT a common rationalization of fraud perpetrators?
 - A. The organization owes me
 - B. I'm only borrowing the money
 - C. No one will get hurt
 - D. I don't deserve more.

2. Which of the following is NOT a primary control procedure to minimize the occurrence of fraud?
 - A. Dual custody
 - B. Systems of authorization
 - C. Internal audit department
 - D. Documents and records

3. Each of the following is an example of an inadequate control environment EXCEPT:
 - A. The HR department failed to check an applicant's background and hired someone who had committed fraud in the past.
 - B. A manager instructs employees not to share passwords, and then shares her passwords with others.
 - C. A company does not establish codes of conduct and does not have training meetings to teach employees to distinguish between acceptable and unacceptable behavior.
 - D. The employees know who has responsibility for each business activity.

4. A fraud perpetrator uses the float time between banks to give the impression that he had money in his accounts. Which crime is he committing?
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 - B. Strip
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5. Which is following observations is TRUE?
 - A. Research shows that only people with a criminal mind set can commit fraud.
 - B. Fraud perpetrators usually can be distinguished from others on the basis of demographic characteristics.
 - C. Most fraud perpetrators have profiles that look like those of other honest people.
 - D. When fraud does occur, the most common reaction by those around the fraud is confession.

6. When management fraud occurs, companies usually:

- A. overstate assets and net income.
- B. understate assets and net income.
- C. overstate assets and understate net income.
- D. understate assets and overstate net income.

7. Which of the following is NOT one of the key elements common to all frauds?

- A. Perceived pressure
- B. Perceived inequality
- C. Perceived opportunity
- D. Rationalization

8. What is the most important element in a control environment?

- A. Management's communication
- B. Management's role and example
- C. The hiring process
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9. Which of the following statements about accounting systems is incorrect?

- A. An effective accounting system provides an audit trail that allows frauds to be discovered.
- B. An effective accounting system makes concealment difficult.
- C. An effective accounting system can almost always effectively prevent "kickbacks."
- D. Without a good accounting system, it is often difficult to distinguish between actual fraud and unintentional error

10. Greed, living beyond one's means and high bills all describe what type of fraud-related pressure?

- A. Financial
- B. Peer
- C. Vice
- D. Barometric
- E. Work Related

11. An effective accounting system is designed to provide which of the following to help discover fraud?

- A. An audit trail
- B. Matching of expenses to revenues
- C. Set of controls
- D. Set of accounting procedures

12. When fraud occurs, the most common reaction to those affected by the fraud is:

- A. Anger
- B. Acceptance
- C. Denial
- D. Retribution

13. Which of the following is NOT an element of a good control environment?

- A. Trust
- B. Modeling
- C. Appropriate hiring
- D. Management's communication

14. Which of the following is NOT a possible control activity?

- A. Having separate authorization, bookkeeping, and custody functions.
- B. Protecting access to important information with a password.
- C. Requiring two individuals to work on the same task.
- D. Supervisory review of each minute task completed by employees.

15. The fraud triangle includes all of the following EXCEPT:

- A. Validation
- B. Perceived opportunity
- C. Rationalization
- D. Perceived pressure

16. Modeling and labeling are sub-components of which control structure component?

- A. Control environment
- B. Accounting system
- C. Control procedure
- D. Review

17. Poor credit could become a _____ that could lead to fraud.

- A. Financial pressure
- B. Perceived opportunity
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18. _____ requires every public company to have a code of ethics to help deter wrongdoing.

- A. The Glass Steagall legislation
- B. The Sarbanes-Oxley legislation
- C. The Securities Act
- D. Generally Accepted Auditing Standards

19. Financial statement fraud is typically committed by:

- A. Employees with access to company assets
- B. Top management
- C. Customers
- D. Vendors

20. An employee who has the responsibilities of both writing checks and making bank deposits would have _____.

- A. Financial pressure
- B. Perceived opportunity
- C. Rationalization

21. Most fraud perpetrators have profiles that look like:

- A. Those of other honest people
- B. Those with criminal records
- C. Those who are uneducated
- D. Those who use alcohol and drugs

22. According to the Sarbanes-Oxley legislation, current changes to, or waivers of codes of ethics should be disclosed in:

- A. Form 10-K.
- B. internal bulletin boards.
- C. Form 8-K.
- D. Form 10-Q.

23. What is the strongest factor in deterring future fraud activity?

- A. Legal prosecution.
- B. Sanctions.
- C. Termination.
- D. Counseling.

24. Which of the following is NOT a true statement?

- A. Almost every fraud involves rationalization.
- B. All frauds involve financial or vice-related pressures.
- C. Perceived opportunity diminishes when fraud perpetrators are prosecuted.

25. A smart fraudster usually manipulates which financial record in order to better avoid an audit trail?

- A. Income statement.
- B. Balance sheet.
- C. Statement of cash flows.
- D. Statement of retained earnings.

26. Which of the following factors creates an opportunity for fraud?

- A. Greed
- B. Living beyond one's means
- C. Lack of an audit trail
- D. The organization owes it to me

27. Which of the following is NOT a common financial pressure associated with fraud?

- A. Living beyond one's means
- B. High bills or personal debt
- C. Personal financial losses
- D. Getting even with the employer

28. Generally, internal controls are implemented in a corporation to help prevent which element of the fraud triangle?

- A. Perceived opportunity
- B. Perceived pressure
- C. Rationalization
- D. Authorization

29. Which racial group is most likely to commit fraud?

- A. Caucasian
- B. African American
- C. Asian
- D. Hispanic
- E. People of every race commit fraud

30. According to the study mentioned in the text, which of the following is true about fraud perpetrators compared to property offenders?

- A. Fraud perpetrators are more likely to be caught than property offenders
- B. Fraud perpetrators are more educated than property offenders
- C. Fraud perpetrators are more likely to be men than property offenders
- D. Fraud perpetrators are much younger than property offenders

31. Which of the following creates opportunities for fraud?

- A. An audit trail
- B. Inability to judge quality of performance
- C. Controls that prevent or detect fraud
- D. Disciplining fraud perpetrators

32. Which of the following people is most likely to have opportunities to commit fraud?

- A. Rob is a convicted bank robber who has been out of jail for 7 years and is working for a small firm whose manager knows about Rob's criminal background.
- B. Jane is a recent high school graduate who loves shopping. She is on the look out for a job.
- C. Steve was just hired by his company but he is always acting suspicious
- D. 62 year old Dave has loyally worked up his company's corporate ladder for the past 24 years

33. According to the study mentioned in the text, people who commit fraud are most similar to which of the following groups?

- A. Property offenders
- B. College students
- C. Convicted murderers
- D. Police officers

34. The theory behind _____ is that if people know their work or activities will be monitored by others, the opportunity to commit and conceal a fraud will be reduced.

- A. documentation
- B. segregation of duties
- C. system of authorizations
- D. independent checks

35. Which of the following is usually the most expensive of all control procedures?

- A. Documents and records
- B. Segregation of duties
- C. System of authorizations
- D. Independent checks

36. Segregation of duties, as a control procedure, is most often used

- A. when the task involved is quite simple.
- B. when it is impossible for one person to complete a task.
- C. when appraisals are conducted.
- D. when cash is involved.

37. Documents and records are an important control activity. Which of the following statements concerning this activity is true?

- A. They serve as excellent preventive controls.
- B. Adequate accountability can exist even in their absence.
- C. The entire accounting system serves as a documentary control.
- D. They are poor detective controls.

38. Which of the following is an example of an authorization control procedure?

- A. Password protection
- B. Periodic job rotation
- C. Cash counts
- D. Supervisor review

39. Who do criminologists compare fraudsters to in relation to repeat offenses and why?

- A. Rapists. They repeat their crimes because they are not severely punished.
- B. Shoplifters. They steal goods frequently and in small quantities until they are confronted.
- C. Bank Robbers. They steal a lot of money from wealthy sources.
- D. Bank Tellers. They have access to a large amount of resources and they are perceived to be trustworthy people.

40. Studies show that in advanced countries, levels of honesty are:

- A. Generally stable
- B. Increasing
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41. Every fraud is comprised of all the following elements EXCEPT:

- A. The theft act
- B. Concealment
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42. According to Max Weber, _____ is the probability that a person can carry out his or her own will despite resistance.

- A. power
- B. persuasion
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43. _____ is the ability of the fraud perpetrator to make an individual perceive punishment if he or she does not participate in the fraud.

- A. Expert power
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- C. Legitimate power
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44. A fraud perpetrator is able to convince a potential victim that he will receive a large bonus if he supports him in a fraud scheme. Which type of power is the fraud perpetrator using?

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45. Individuals often participate in fraud because they believe that by not participating in the fraud scheme, they may lose their job. Which type of power is at play here?

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47. _____ is the ability of the perpetrator to relate to the potential co-conspirator.

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48. Many individuals, when persuaded by a trusted friend to participate in fraud, will rationalize the actions as being justifiable. Which type of power is being employed in such situations?

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