



**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 1 December 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper has two Sections. SECTION I consists of fifty (50) Multiple Choice Questions carrying fifty (50) marks. SECTION II has four (4) structured questions carrying fifty (50) marks. Answer ALL questions. Marks allocated to each question are indicated at the end of the question.**

**SECTION I (50 MARKS)**

1. Which one of the following statements is **NOT** a function of a forensic fraud investigation?
  - A. Conclusion in regard to whether fraud has occurred or not
  - B. Testifying in court as an expert witness
  - C. Making recommendation for corrective measures
  - D. Fraud risk assessment(1 mark)
2. Which one of the following accounting equations is **CORRECT**?
  - A. Assets = Owner's equity - Liabilities
  - B. Liabilities = Owner's equity + Assets
  - C. Owners' equity = Assets - Liabilities
  - D. Assets = Liabilities + Owner's equity(1 mark)
3. A fraud examiner discovered a fraud concealment of Sh.50,000 misappropriation in the books of Watatu enterprises. Which one of the following entries **BEST** explains a possible concealment of the Sh.50,000 misappropriated?
  - A. Dr: Cash and Cr; payroll liabilities
  - B. Dr: Cash and Cr: trade receivables
  - C. Cr: Cash and Dr: depreciation expense
  - D. Cr: cash and Cr: depreciation(1 mark)
4. Which one of the following shows the **TWO** primary methods of accounting?
  - A. Accurate and accredited accounting basis
  - B. Accrual and cash accounting basis
  - C. IFRS and accurate accounting basis
  - D. Accredited and fair value accounting basis(1 mark)
5. Short term liabilities include items such as \_\_\_\_\_.
  - A. bank overdraft and payables
  - B. trade receivables and short-term investments
  - C. five-year financing covenant
  - D. payables and pending civil suit liability(1 mark)
6. Which one of the following statements is an item of the statement of changes in equity?
  - A. Retained earnings and ordinary shares
  - B. Investment property and current assets
  - C. Current assets and current liabilities
  - D. Investment property and trade receivables(1 mark)

7. Which one of the following statements is **ACCURATE** in regard to the effects of overstating inventory?
- A. The current ratio will be understated
  - B. The expenses will be understated
  - C. The cost of goods will be understated
  - D. The cost of goods will be overstated
- (1 mark)
8. Which one of the following statements is **ACCURATE** in regard to profitability and liquidity?
- A. Net profit is equal to the cash balances
  - B. Operating cash flows balances are equal bank balances
  - C. Net profit is not equal to the cash and bank balances
  - D. Operating cash balances is equal to the gross profit
- (1 mark)
9. Which one of the following statements is **NOT** accurate in regard to reporting of the statement of profit or loss?
- A. It includes a statement of comprehensive income
  - B. It shows the net worth of an organisation
  - C. Revenue is normally at the top most of the statement
  - D. Gross profit is derived from net sales less cost of sales
- (1 mark)
10. Which one of the following statements is **ACCURATE** in regard to capital expenditure?
- A. Capital expenditure has future economic value
  - B. Capital expenditure is material expenditure
  - C. Capital expenditure is an item of the statement of profit and loss
  - D. Capital expenditure is consumable expenditure
- (1 mark)
11. Which one of the following statements **BEST** indicates fictitious revenue?
- A. Unknown customers that have bought products with no contact details
  - B. Credit customers with bad payment history
  - C. Fake customers that transacted with the organisation
  - D. Sales that were paid for but services not delivered
- (1 mark)
12. Which one of the following statements **BEST** describes a method of concealing liabilities and expenses?
- A. Omission of expenses
  - B. Disclosing warranty costs and product return liabilities
  - C. Capitalising liabilities
  - D. Accruing expenses
- (1 mark)
13. Which one of the following actions is **NOT** a financial statement related to improper valuations?
- A. Disclosure of all subsequent events
  - B. Disclosure of related party transactions
  - C. Disclosure of all contingent liabilities
  - D. Writing off bad debts
- (1 mark)
14. Ordinary shares are items of which of the following financial statements?
- A. Statement of profit or loss
  - B. Statement of cash flows
  - C. Statement of changes in owner's equity
  - D. Statement of financial position
- (1 mark)
15. Which one of the following is **NOT** a profit of financial statement analysis?
- A. Vertical analysis
  - B. Statistical analysis
  - C. Ratio analysis
  - D. Horizontal analysis
- (1 mark)
16. Which one of the following financial statements elements is **NOT** recorded in the statement of financial position?
- A. Current assets
  - B. Non-current assets
  - C. Bad debts
  - D. Prepaid revenue
- (1 mark)

17. Which one of the following is an item for calculating gross profit?  
A. Revenue  
B. Cost of revenue  
C. Net revenue  
D. Net receivables (1 mark)
18. Which one of the following assignments is similar to fraud investigation?  
A. External audit  
B. Forensic accounting  
C. Special audit  
D. Forensic audit (1 mark)
19. Which one of the following statements **BEST** describes expenses?  
A. When assets decrease or liabilities increase  
B. When assets increase and liabilities increase  
C. When capital expenditure is incurred  
D. When assets increase and liabilities excluded (1 mark)
20. Which one of the following financial statements fraud schemes is **NOT** associated with overstated revenue fraud scheme?  
A. Bad debts  
B. Fictitious revenue  
C. Long term contract revenue  
D. Overstated revenue (1 mark)
21. Which one of the following statements **BEST** describes cash basis of accounting?  
A. Revenue and expenses are recognised when cash is received and paid respectively  
B. Prepaid expenses are excluded from the income statement  
C. Expenses and revenue follow the matching concept  
D. Revenue generated from credit sales is included in the income statement (1 mark)
22. Which one of the following is **NOT** used to calculate quick ratio?  
A. Short term investments  
B. Inventory  
C. Trade receivables  
D. Cash in Bank (1 mark)
23. Which one of the following is included in the statement of financial performance?  
A. Gross salaries  
B. Plant and equipment  
C. Capital and reserves  
D. Bank overdraft (1 mark)
24. Which one of the following statements is **NOT** part of cash flows from operating activities in the statement of cash flows?  
A. Profit before tax  
B. Changes in trade receivables  
C. Depreciation  
D. Loans advances (1 mark)
25. Which one of the following statements is **ACCURATE** in regard to statement of profit or loss?  
A. Items of profit or loss are taken forward as opening balances in the next financial reporting year  
B. Profit before tax is taken to statement of changes in equity  
C. Taxes on sales are included in the statement of profit or loss  
D. Gross profit is before expenses and taxes (1 mark)
26. Which one of the following statements is an objective of a forensic accounting for litigation purposes?  
A. Prove or disapprove the allegation of accounting fraud  
B. Determine the guilt or innocence in regards to the alleged fraud  
C. To prove the allegations of fraud  
D. To disapprove the allegations of fraud (1 mark)

27. Which one of the following statements is **ACURATE** in regard to financial statements elements?  
A. Trade receivables are non-current assets  
B. Loan advances to staff are part of total equity  
C. Share capital are non-current liabilities  
D. Bank overdraft are current liabilities (1 mark)
28. Which one of the following statements is **NOT** a purpose of a statement of financial position?  
A. Demonstrating the performance of an entity over the reporting period  
B. Assist in gearing ratio calculation  
C. Showing the net worth of an organisation as at the end of the reporting period  
D. Showing the total assets of an entity (1 mark)
29. Which one of the following items is used to calculate net profit?  
A. Sales  
B. Cost of goods sold  
C. Trade discounts  
D. Gross profit (1 mark)
30. Which one of the following actions will **NOT** lead to reduction in current tax payable?  
A. Increasing expenses  
B. Decreasing sales  
C. Understating payroll expenses  
D. Inclusion of capital items as expenses (1 mark)
31. Which one of the following **BEST** describes the financial item that will be misrepresented by concealing expenses?  
A. Net profit  
B. Gross profit  
C. Receivables  
D. Owner's equity (1 mark)
32. Which one of following statements is **NOT** a function of a forensic accountant?  
A. Documenting the forensic accounting findings  
B. Collect evidence to prove or disapprove a fraud allegation  
C. Conduct an in-depth analysis of the general ledger  
D. Expressing a forensic audit opinion (1 mark)
33. Which one of the following statements of cash flow activities is loan repayments recorded?  
A. Investing activities  
B. Operating activities  
C. Financing activities  
D. Strategic activities (1 mark)
34. Which one of the following items **BEST** describes unpaid salary deductions after month end?  
A. Net profit before tax  
B. Current liabilities  
C. Unearned salary asset account  
D. None current liabilities (1 mark)
35. Which one of the following is **NOT** an example of forensic accounting?  
A. Examination of receivables  
B. Revaluation of non-current assets  
C. Examination of the general ledger  
D. Examination of the payroll (1 mark)
36. Which one of the following statements **BEST** describes the role of a forensic auditor?  
A. Prepare financial statements under IFRSs  
B. Assist in preparation of management accounts  
C. Provide an opinion of forensic audit results for litigation purposes  
D. Collect evidence to approve or disapprove allegations of fraud (1 mark)

37. Which one of the following **BEST** describes a component of non-current assets?  
A. Loans from financial institutions  
B. Investment property  
C. Trade receivables  
D. None of the above (1 mark)
38. Which one of following **BEST** describes an engagement that could be conducted for purpose of bankruptcy?  
A. Forensic accounting  
B. Forensic audit  
C. External audit  
D. Internal audit (1 mark)
39. Which one of the following is **NOT** a financial element of a statement of profit or loss?  
A. Depreciation  
B. Net Sales  
C. Expenses  
D. Capital expenditure (1 mark)
40. Which one of the following financial statement fraud schemes does **NOT** result in overstatement of revenue?  
A. Fictitious revenue  
B. Unearned revenue  
C. Long term revenue  
D. Failure to write bad debts (1 mark)
41. Which one of the following **BEST** describes presentation of liabilities in the financial statement?  
A. Order of maturity  
B. Order of value  
C. Order of liquidity  
D. Order of value (1 mark)
42. Which one of the following expenses can management omit in the financial statements to fraudulently overstate the net profit?  
A. Payables  
B. Paid expense  
C. Prepaid expenses  
D. Capitalised expenses (1 mark)
43. Which one of the following is used to calculate the acid test ratio?  
A. Revenue  
B. Inventory  
C. Securities  
D. Machinery (1 mark)
44. Which one of the following statements is **NOT** a function of fraud investigations?  
A. Assisting in fraud prevention and detection  
B. Litigation support  
C. Collection of evidence  
D. Expressing an opinion (1 mark)
45. Which one of the following statements is **MOST** accurate in regard to the effects of improper recognition of revenue?  
A. Fair representation of the financial position and performance of the entity  
B. Overstatement of both the revenue and receivables  
C. Reliable opinion in relation to the going concern  
D. Misrepresentation of the financial performance of the entity (1 mark)
46. Which one of the following entries in the books of account would complete the double entry for purposes of concealing an asset misappropriation?  
A. Reducing an expense  
B. Increasing an expense  
C. Increasing a liability  
D. Reducing an asset (1 mark)

47. Which one of the following statements is **NOT** accurate in regard to recognising advance payments for goods to be delivered in the following year?
- The transaction will understate the revenue earned during that financial year
  - The transaction will overstate the revenue earned during that financial year
  - The transaction is an example of a financial statement fraud scheme related to improper recognition of revenue
  - The transaction will overstate the net profit
- (1 mark)
48. Which one of the following accounts would **NOT** be fraudulently affected by fictitious revenue?
- The receivables
  - The current ratio
  - Net profit
  - Payables
- (1 mark)
49. Which one of the following assignments should a company conduct to establish if fraud has occurred upon receiving an anonymous tip?
- Forensic Accounting
  - Forensic audit
  - Fraud audit
  - Surprise audit
- (1 mark)
50. Which one of the following statements **BEST** describes the effect on the statement of financial performance for failure to record the cost of revenue in the same reporting period?
- Expenses will be understated
  - The gross profit will be overstated
  - The net profit will be understated
  - None of the above
- (1 mark)

## SECTION II (50 MARKS)

51. Explain the following accounting concepts in relation to financial reporting:
- Gross profit. (5 marks)
  - Net profit. (5 marks)
  - Liquidity ratio. (5 marks)
  - Net revenue. (5 marks)
- (Total: 20 marks)**
52. Explain **FIVE** essential skills of a fraud examiner. **(Total: 15 marks)**
53. Explain the following elements of fraud investigation:
- Objective. (2 marks)
  - Conclusion. (2 marks)
  - Scope. (2 marks)
  - Presumption. (2 marks)
  - Basis of the fraud investigation. (2 marks)
- (Total: 10 marks)**
54. In relation to fraudulent transactions, identify:
- THREE** fraudulent transactions that would overstate receivables. (3 marks)
  - TWO** fraudulent transaction that would understate expenses. (2 marks)
- (Total: 5 marks)**
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**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 18 August 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. This paper has two Sections. SECTION I consists of fifty (50) Multiple Choice Questions carrying fifty (50) marks. SECTION II has four (4) structured questions carrying fifty (50) marks. Marks allocated to each question are indicated at the end of the question.**

**SECTION I (50 MARKS)**

1. Which one of the following statements is **ACCURATE** in regard to the results of improper disclosures?
  - A. Fair representation of the financial position and performance of the entity
  - B. Misrepresentation of both the financial performance and position of the entity
  - C. Reliable opinion in relation to the going concern
  - D. None of the above(1 mark)
2. Which one of the following financial items is used to calculate the net profit?
  - A. Revenue earned
  - B. Capital expenditure
  - C. Gross profit
  - D. Net sales(1 mark)
3. Which one of the following statements is **NOT** accurate in regard to the statement of profit or loss?
  - A. The first item in the statement is net revenue
  - B. The first item in the statement is revenue
  - C. The first item in the statement is the gross profit
  - D. The first item in the statement is the net profit(1 mark)
4. Which one of the following transactions would help to cover misappropriated fund?
  - A. Reducing an expense
  - B. Increasing a liability
  - C. Reducing a liability
  - D. Reducing an asset(1 mark)
5. Which one of the following statements is **ACCURATE** in regard to recognising long term project in the first year of performance?
  - A. The transaction will understate the revenue earned during that financial year
  - B. The transaction will overstate the revenue earned during that financial year
  - C. The transaction will not affect the financial performance reporting
  - D. The transaction is not an improper recognition of revenue(1 mark)

6. Which one of the following summaries is **ACCURATE** in regard to the summary of the financial position of an organisation?
- A.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the statement of performance
  - D.  $\text{Assets} = \text{liabilities} + \text{owner's equity}$
- (1 mark)
7. Which one of the following financial items appears on the statement of cash flows from investment activities?
- A. Cash from sales
  - B. Received dividends
  - C. Cash purchase of an asset
  - D. Paid dividends
- (1 mark)
8. Which one of the following financial items would **NOT** be fraudulently affected by fictitious revenue?
- A. The receivables
  - B. The current ratio
  - C. Net profit
  - D. Liabilities
- (1 mark)
9. Which one of the following engagements should a company conduct after establishing that fraud has occurred?
- A. Forensic accounting
  - B. Forensic audit
  - C. Fraud audit
  - D. Surprise audit
- (1 mark)
10. Which one of the following statements **BEST** describes the financial item that is misrepresented by failure to recognise all direct expenses in the same accounting period?
- A. Expenses will be overstated
  - B. The gross profit will be overstated
  - C. The net profit will be understated
  - D. Current ratio will be understated
- (1 mark)
11. Which one of the following statements is **NOT** accurate in regard to profits?
- A. Net profit is recorded in the statement of financial performance
  - B. Net profit is equal to gross profit less operation costs
  - C. Gross margin is equal to revenue less cost of good
  - D. Net profit is equal to revenue less direct cost
- (1 mark)
12. Which one of the following fraudulent transactions would help to hide a reduction of a liability in the books of account?
- A. Reducing owners' equity
  - B. Decreasing an expense
  - C. Increasing an asset
  - D. Increasing an expense
- (1 mark)



13. Which one of the following statements is an objective of conducting forensic accounting assignment for litigation purposes?
- A. Forensic accounting conducted to collect evidence to prove or disapprove allegations
  - B. Forensic accounting conducted to establish the true financial performance and position of an organisation
  - C. Forensic accounting conducted for purposes of acquisition or mergers
  - D. Forensic accounting conducted to collect audit evidence to express an opinion (1 mark)
14. Which one of the following statements is **NOT** accurate in regard to reporting of the financial position?
- A. Assets are presented in the statement of financial position, in order of liquidity
  - B. Liabilities are presented after assets in the statement of financial position
  - C. Assets are presented in order of maturity
  - D. Current liabilities are presented first followed by long term liabilities (1 mark)
15. Which one of the following statements is **ACCURATE** in regard to journal entries?
- A. Adjusting journal entries posted in the ledger accounts at the end of the financial period are red flags of fraud
  - B. Adjusting journal entries posted in the ledger accounts at the end of the financial year are evidence of fraudulent financial transactions
  - C. Adjusting journal entries posted at the end of the financial year are all fraudulent
  - D. Adjusting journals do not require proper authorisation (1 mark)
16. Which one of the following financial statements fraud schemes **COULD** be detected by comparing financial items in the statement of profit and loss?
- A. Overstatement of revenue scheme
  - B. Concealment of expenses
  - C. Overstatement of expenses scheme
  - D. Inadequate disclosures (1 mark)
17. Which one of the following are financial items of the statement of retained earnings?
- A. Owner's equity and net profit realised during the financial year
  - B. Owner's equity and the revenue earned during the financial year
  - C. Owner's equity and the gross profit earned during the financial year
  - D. Owner's equity and retained profit realised during the financial year (1 mark)
18. Which one of the following statements is not **ACCURATE** in regard to departure from IFRS?
- A. Departure from IFRS, in recognising revenue would result in inflated net profit
  - B. Departure from IFRS, in recognising revenue would result in overstated receivables
  - C. Departure from IFRS, in recognising revenue would not result in overstated revenue
  - D. Departure from IFRS, in recognising revenue would result in inflated current ratio (1 mark)
19. Which one of the following statements **BEST** describes cash flow activities related to payment of dividends?
- A. Financing activities
  - B. Operating activities
  - C. Investment activities
  - D. Cash activities (1 mark)

20. Which one of the following **BEST** describes the basis of accounting for recognising earned but unpaid revenue?
- A. Accrual basis of accounting
  - B. Cash basis of accounting
  - C. Double entry basis of accounting
  - D. Matching principle
- (1 mark)
21. Which one of the following statements is **NOT** accurate in regard to the liquidity ratio?
- A. Fictitious revenue would result to overstated liquidity ratio
  - B. Omission of expenses would result to overstated liquidity ratio
  - C. Omission of expenses would not result to understated liquidity ratio
  - D. Capitalisation of expenses would understate the liquidity ratio
- (1 mark)
22. Which one of the following is the first item in the statement of financial position?
- A. Net revenue
  - B. Current assets
  - C. Non-current assets
  - D. Current liabilities
- (1 mark)
23. Which one of the following is **NOT** a financial element of statement of financial position?
- A. Current liabilities
  - B. Non-current asset
  - C. Liabilities
  - D. Net profit
- (1 mark)
24. Which one of the following statements is **NOT** accurate in regard to disclosure in financial reporting?
- A. All material information related to the reporting period must be disclosed
  - B. Subsequent events that would affect the financial position in the near future need to be disclosed in the financial period
  - C. Failure to disclose subsequent events in the current financial year is a financial statement fraud scheme
  - D. All information relate to the financial year must be disclosed
- (1 mark)
25. Which one of the following financial statements fraud scheme can be detected through horizontal analysis?
- A. Overstated revenue scheme
  - B. Inadequate disclosure
  - C. Unearned revenue
  - D. Improper asset valuation
- (1 mark)
26. Which one of the following statements is the objective of forensic accounting that ends up in litigation?
- A. To prove the allegations of accounting fraud
  - B. To disapprove the allegations of accounting fraud

- C. To prove or disapprove the allegations of accounting fraud  
D. To prove or disapprove issues of accounting fraud (1 mark)
27. Which one of the following statements is **NOT** accurate in regard to auditor's role in fraud management?  
A. The auditor should detect fraud schemes  
B. The auditor should identify red flags of fraud  
C. The auditor should make recommendation for further investigations of detected fraud  
D. The auditor should investigate detected fraud during the audit (1 mark)
28. Which one of the following engagements is **NOT** forensic in nature?  
A. Forensic fraud audit  
B. Forensic accounting for purposes of acquisition  
C. Fraud examination  
D. Fraud investigation (1 mark)
29. Which one of the following financial statements fraud schemes is **NOT** associated with overstated revenue fraud scheme?  
A. Overstated receivables  
B. Fictitious revenue  
C. Timing differences  
D. Accrual of revenue (1 mark)
30. Which one of the following transactions would fraudulently affect assets and expenditure?  
A. Omission of expenses  
B. Improper valuation of assets  
C. Improper recognition of expenses  
D. Capitalisation of expenditure (1 mark)
31. Which one of the following orders **BEST** describes presentation of non-current assets in the statement of financial position?  
A. In order of maturity  
B. In order of value  
C. In order of realisable value  
D. They are presented before the current assets (1 mark)
32. Which one of the following entries **CANNOT** help to conceal embezzlement of funds?  
A. Increasing an asset  
B. Increasing an expense  
C. Decreasing a liability  
D. Decreasing an expense (1 mark)
33. Which one of the following statements is **NOT** accurate in regard to unearned revenue recognition?  
A. Unearned revenue should not be recognised as revenue during the financial period  
B. Unearned revenue should be recognised as receivables  
C. Only revenue for services or goods delivered should be recognised  
D. Recognising revenue that is not earned would result to inflated receivables (1 mark)

34. Which one of the following items **BEST** describes types of fraud scheme associated with improper current asset valuation?
- A. Understated receivable
  - B. Writing off bad debts
  - C. Failure to write off bad debts
  - D. Overstated revenue
- (1 mark)
35. Which one of the following statements is **NOT** accurate in regard to financial statements items in the current financial period?
- A. Unpaid expenses are financial statement elements
  - B. Unearned revenue is not a financial statement element
  - C. Unearned revenue is a disclosure in the financial statement
  - D. None of the above
- (1 mark)
36. Which one of the following control activities is **NOT** similar to forensic audit?
- A. Fraud audit
  - B. Fraud investigation
  - C. Forensic examination
  - D. Fraud examination
- (1 mark)
37. Which one of the following fraud schemes would fraudulently overstate the net worth of an entity?
- A. Inadequate disclosure
  - B. Understated revenue
  - C. Understated liabilities
  - D. Overstated expenses
- (1 mark)
38. Which one of the following actions is **NOT** a function of a fraud investigation?
- A. Assisting in fraud prevention
  - B. Testifying in court as an expert witness
  - C. Collecting evidence
  - D. Determining fraud issues
- (1 mark)
39. Which one of the following statements is **NOT** accurate in regard to forensic accountants and auditors?
- A. Forensic accountants do not need to have knowledge of the basic principles of evidence
  - B. Forensic accountants must have good knowledge of anti- fraud controls
  - C. Forensic auditors must have good knowledge of the basic principles of evidence
  - D. Forensic auditors can also be non-accountants
- (1 mark)
40. Which one of the following orders **BEST** describes presentation of current liabilities in the statement of financial position?
- A. In order of maturity
  - B. In order of value
  - C. In order of liquidity
  - D. In order of realisable value
- (1 mark)

41. Which one of following financial statements fraud schemes is **NOT** associated with improper revenue recognition?
- A. Recognising long term projects revenue
  - B. Recognising unearned revenue
  - C. Recognising gross revenue
  - D. Failure to write off bad debts
- (1 mark)
42. Which one of following financial statement fraud schemes is **NOT** associated with expenses?
- A. Improper recognition of expenses
  - B. Concealment of expenses
  - C. Capitalisation of expenditure
  - D. None of the above
- (1 mark)
43. Which one of the following financial items is used to calculate the quick ratio in an organisation?
- A. Revenue
  - B. Securities
  - C. Inventory
  - D. Overdue receivables
- (1 mark)
44. Which one of the following financial items is used to calculate the average number of days it takes to collect receivables?
- A. Net revenue
  - B. Average receivables
  - C. Revenue
  - D. Receivables
- (1 mark)
45. Which one of the following financial items is used to calculate the current ratio of a public entity?
- A. Revenue
  - B. Expenses
  - C. Financial securities
  - D. Liabilities
- (1 mark)
46. Which one of the following terms **BEST** describes the initial assignment an organisation should conduct to resolve fraud issues?
- A. Fraud audit
  - B. Forensic audit
  - C. Special audit
  - D. Internal audit
- (1 mark)
47. Which one of the following terms is **NOT** a financial item used to calculate the gross revenue of an organisation?
- A. Net revenue
  - B. Cost of revenue
  - C. Revenue
  - D. Operation expenses
- (1 mark)

48. Which one of the following statements **BEST** describes the ratio that calculates the number of times inventory is turned over?
- A. Collection ratio
  - B. Receivable turnover ratio
  - C. Inventory turnover ratio
  - D. Inventory receivable ratio
- (1 mark)
49. Which one of the following terms **BEST** describes an assignment that should be conducted for purposes of entities merger?
- A. Forensic accounting
  - B. Forensic audit
  - C. External audit
  - D. Special audit
- (1 mark)
50. Which one of the following **BEST** describes payables?
- A. Incurred expenses
  - B. Paid expenses
  - C. Debtors
  - D. Creditors
- (1 mark)

**SECTION II (50 MARKS)**

51. Explain the following financial elements of financial reporting:
- (a) Gross revenue. (5 marks)
  - (b) Net profit. (5 marks)
  - (c) Gross profit. (5 marks)
  - (d) Net sales. (5 marks)
- (Total: 20 marks)**
52. Explain the **THREE** financial statements of a public entity. (Total: 20 marks)  
(Total: 15 marks)
53. Explain **FIVE** types of forensic accounting engagements. (Total: 10 marks)
54. Identify **FIVE** fraudulent transactions that cannot be used to conceal asset misappropriation. (Total: 5 marks)
- .....

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**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**TUESDAY: 22 April 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. This paper has two Sections. SECTION I consists of fifty (50) Multiple Choice Questions carrying fifty (50) marks. SECTION II has four (4) structured questions carrying fifty (50) marks. Marks allocated to each question are indicated at the end of the question.**

**SECTION I (50 MARKS)**

1. Which one of the following statements is **ACCURATE** in regard to the results of improper recognition of revenue?
  - A. Fair representation of the financial position and performance of the entity
  - B. Misrepresentation of both the financial performance and position of the entity
  - C. Reliable opinion in relation to the going concern
  - D. Misrepresentation of the financial performance of the entity(1 mark)
2. Which one of the following is a financial item used to calculate the gross profit?
  - A. Revenue earned
  - B. Expenses incurred
  - C. Non-current assets
  - D. None of the above(1 mark)
3. Which one of the statements is **NOT** accurate in regard to current assets and current liabilities?
  - A. The above items are recorded in the in the statements of financial position and are used to calculate the current ratio to measure an organisation's profit
  - B. A current ratio that is too favourable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be affected by overstated and understated receivables and payables respectively
  - D. None of the above(1 mark)
4. Which one of the following transactions would complete the double entry that conceals asset misappropriation?
  - A. Reducing an expense
  - B. Increasing an expense
  - C. Increasing a liability
  - D. Reducing an asset(1 mark)

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5. Which one of the following statements is **NOT** accurate in regard to recognising deposit for services to be rendered in the subsequent year?
- A. The transaction will understate the revenue earned during that financial year
  - B. The transaction will overstate the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to improper recognition of revenue
  - D. None of the above
- (1 mark)
6. Which one of the following model is **ACCURATE** in regard to the accounting model?
- A.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the statement of performance
  - D. None of the above
- (1 mark)
7. Which one of the following financial items appears on the statement of owner's equity?
- A. Net profit
  - B. Gross profit
  - C. Retained earnings
  - D. None of the above
- (1 mark)
8. Which one of the following financial reporting items would **NOT** be fraudulently affected by fictitious revenue?
- A. The receivables
  - B. The current ratio
  - C. Net profit
  - D. None of the above
- (1 mark)
9. Which one of the following assignment should a company conduct on receiving a tip of fraud?
- A. Forensic Accounting
  - B. Forensic audit
  - C. Fraud audit
  - D. Surprise audit
- (1 mark)
10. Which one of the following statements is **ACCURATE** regarding the statement of changes in owners' equity?
- A. It is not the same as the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial performance
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. None of the above
- (1 mark)
11. Which one of the following statements **BEST** describes the results of failure to record the cost of generating revenue in the same accounting period?
- A. Expenses will be understated
  - B. The gross profit will be overstated
  - C. The net profit will be understated
  - D. None of the above
- (1 mark)

12. Which one of the following statements is **NOT** accurate with regard to net revenue and gross profit?
- A. Net profit is recorded in the statement of financial performance
  - B. Net profit is equal to gross profit less operation costs
  - C. Gross margin is equal to revenue less cost of good
  - D. None of the above
- (1 mark)
13. Which one of the following fraudulent transaction would help to conceal a reduction of a liability in the books of account?
- A. Reducing owners' equity
  - B. Decreasing an expense
  - C. Increasing an asset
  - D. None the above
- (1 mark)
14. Which one of the following statements is **NOT** an objective of conducting accounting assignment for court purposes?
- A. Forensic accounting can be conducted, to resolve allegations of fraudulent financial reporting
  - B. Forensic accounting can be conducted to establish the exact financial performance and position of an organisation
  - C. Forensic accounting can be conducted, for purposes of acquisition or mergers
  - D. Forensic accounting can be conducted to collect audit evidence in order to express an opinion
- (1 mark)
15. Which one of the following statements is **NOT** accurate in regard to reporting of liabilities in the statement of financial position?
- A. Liabilities are presented in the statement of financial position in order of liquidity
  - B. Liabilities are presented after assets in the statement of financial position
  - C. Liabilities are presented in order of maturity
  - D. Current liabilities are presented first followed by long term liabilities
- (1 mark)
16. Which one of the following statements is **ACCURATE** in regard to ledger accounts?
- A. Adjusting journal entries posted in the ledger accounts at the end of the financial year is a red flag of fraud
  - B. Adjusting journal entries posted in the ledger accounts at the end of the financial year are evidence of fraudulent financial transactions
  - C. Adjusting journal entries posted at the end of the financial year are all fraudulent
  - D. Adjusting journals do not require authorisation, like payments by a senior accounting staff
- (1 mark)
17. Which one of the following financial statements fraud schemes can be detected by comparing the two financial statements in a situation of unexplained rapid growth?
- A. Overstatement of revenue scheme
  - B. Understatement of revenue scheme
  - C. Overstatement of expenses scheme
  - D. Inadequate disclosures
- (1 mark)
18. Which one of the following is a financial elements of the statement of owner's equity?
- A. Owner's equity and the retained earnings during the financial year
  - B. Owner's equity and net profit realised during the financial year
  - C. Owner's equity and the revenue earned during the financial year
  - D. Owner's equity and the gross profit earned during the financial year
- (1 mark)

19. Which one of the following statements is **NOT** accurate in regard to IFRS?
- A. Departure from IFRS in recognising revenue would result in inflated net profit
  - B. Departure from IFRS in recognising revenue would result in overstated receivables
  - C. Departure from IFRS in recognising revenue would result in understated current ratio
  - D. Departure from IFRS in recognising revenue would result in inflated current ratio
- (1 mark)
20. Which one of the following activities **BEST** describes cash flow activities related to obtaining loans?
- A. Financing activities
  - B. Operation activities
  - C. Investment activities
  - D. None of the above
- (1 mark)
21. Which one of the following accounting concepts **BEST** describes the basis of accounting for recognising expenses as payables?
- A. Accrual basis of accounting
  - B. Cash basis of accounting
  - C. Double entry basis of accounting
  - D. Matching principle
- (1 mark)
22. Which one of the following statements is **NOT** accurate in regard to the current ratio?
- A. Fictitious revenue would result to overstated current ratio
  - B. Omission of expenses would result to overstated current ratio
  - C. Omission of expenses would result to understated current ratio
  - D. None of the above
- (1 mark)
23. Which one of the following is the first item on the statement of financial performance?
- A. Net revenue
  - B. Net profit
  - C. Gross profit
  - D. Gross revenue
- (1 mark)
24. Which one of the following financial elements is recorded first on the statement of financial position?
- A. Current liabilities
  - B. Non-current asset
  - C. Liabilities
  - D. Current assets
- (1 mark)
25. Which one of the following statements is **NOT** accurate in regard to disclosure in financial statements?
- A. All material information related to the reporting period must be disclosed
  - B. Subsequent events do not need to be disclosed in the current financial period
  - C. Failure to disclose subsequent events in the current financial year is a financial statement fraud
  - D. None of the above
- (1 mark)
26. Which one following financial statements fraud schemes can be detected by calculating the receivable turnover ratio?
- A. Overstated revenue scheme
  - B. Understated revenue schemes
  - C. Understated receivables
  - D. Fictitious revenue scheme
- (1 mark)

27. Which one of the following statements is the objective of a forensic fraud audit?
- A. To prove the allegations of fraud
  - B. To disapprove the allegations of fraud
  - C. To prove or disapprove the allegations of fraud
  - D. To prove or disapprove issues of fraud
- (1 mark)
28. Which one of the following statements is **NOT** accurate in regard to auditor's responsibility for fraud?
- A. The auditor should detect in fraud and corruption schemes
  - B. The auditor should identify red flags of fraud and fraud risks
  - C. The auditor should make recommendation for further investigations of detected fraud
  - D. None of the above
- (1 mark)
29. Which one of the following engagements is **NOT** investigative in nature?
- A. Forensic fraud audit
  - B. Special audit
  - C. Fraud examination
  - D. Fraud investigation
- (1 mark)
30. Which one of the following financial statements fraud schemes is associated with fictitious revenue?
- A. Overstated receivables
  - B. Fictitious revenue
  - C. Understated revenue
  - D. Unearned revenue
- (1 mark)
31. Which one of the following transactions would overstate assets and understate expenditure?
- A. Omission of expenses
  - B. Improper valuation of assets
  - C. Improper recognition of expenses
  - D. Capitalisation of expenditure
- (1 mark)
32. Which one of the following orders **BEST** describes presentation of current assets in the statement of financial position?
- A. In order of maturity
  - B. In order of value
  - C. In order of liquidity
  - D. In order of realisable value
- (1 mark)
33. Which one of the following entries **CANNOT** help to conceal an asset misappropriation?
- A. Increasing an asset
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. None of the above
- (1 mark)
34. Which one of the following statements is **NOT** accurate in regard to revenue recognition?
- A. Revenue should be recognised when it is earned
  - B. Revenue should only be recognised when it is received
  - C. Only revenue for services or goods delivered should be recognised
  - D. None of the above
- (1 mark)

35. Which one of the following actions **BEST** describes types of fraud schemes related to failure to write off bad debts?
- A. Improper current assets valuation
  - B. Understating receivables
  - C. Inadequate disclosure
  - D. Overstating expenses
- (1 mark)
36. Which one of the following statements is **NOT** accurate in regard to financial statements?
- A. Disclosure of related party transactions are financial statements elements
  - B. Unpaid expenses are financial statement element
  - C. Unearned revenue is not a financial statement element
  - D. None of the above
- (1 mark)
37. Which one of the following activities **BEST** describes proactive controls for detecting fraud in an organisation?
- A. Fraud audit
  - B. Fraud investigation
  - C. Forensic audit
  - D. None of the above
- (1 mark)
38. Which one of the following fraud schemes would fraudulently overstate the financial position of an organisation?
- A. Inadequate disclosure
  - B. Overstating expenditure
  - C. Failure to write off bad debts
  - D. Proportioning revenue based on completed work
- (1 mark)
39. Which one of the following is **NOT** a function of forensic accounting for court purposes?
- A. Assisting in fraud prevention
  - B. Testifying in court as an expert witness
  - C. Collecting evidence
  - D. None of the above
- (1 mark)
40. All the following statements is accurate, **EXCEPT** \_\_\_\_\_.
- A. forensic accountants do not need to have good knowledge of the rules of evidence
  - B. forensic accountants must have good knowledge of anti- fraud controls
  - C. forensic accountants must have good investigation reporting skills
  - D. forensic accountants must have good interviewing skills
- (1 mark)
41. Which of the following order **BEST** describes presentation of liabilities in the statement of financial position?
- A. In order of maturity
  - B. In order of value
  - C. In order of liquidity
  - D. In order of realisable value
- (1 mark)
42. Which one of the following financial statements fraud schemes is **NOT** associated with overstatement of revenue?
- A. Recognising fictitious revenue
  - B. Recognising unearned revenue
  - C. Recognising gross sales
  - D. Failure to write off bad debts
- (1 mark)

43. Which one of the following financial statement fraud schemes is associated with the omission of expenses?
- A. Improper recognition of expenses
  - B. Concealment of expenses
  - C. Capitalisation of expenditure
  - D. None of the above
- (1 mark)
44. Which one of the following financial items is used to calculate the quick ratio of an organisation?
- A. Revenue
  - B. Receivables
  - C. Inventory
  - D. None of the above
- (1 mark)
45. Which one of the following financial items is used to calculate receivable turnover ratio?
- A. Net revenue
  - B. Receivables
  - C. Revenue
  - D. None of the above
- (1 mark)
46. Which one of the following financial items is used to calculate the liquidity ratio of an organisation?
- A. Revenue earned
  - B. Expenses incurred
  - C. Current assets
  - D. None of the above
- (1 mark)
47. Which one of the following types of audit **BEST** describes the assignment an organisation should conduct after determining that fraud has occurred?
- A. Fraud audit
  - B. Forensic audit
  - C. Special audit
  - D. None of the above
- (1 mark)
48. Which one of the following financial items is used to calculate the current ratio of an organisation?
- A. Revenue
  - B. Expenses
  - C. Current assets
  - D. None of the above
- (1 mark)
49. Which one of the following assignments **BEST** describes the ratio that calculates the number of days it takes to collect a receivable?
- A. Collection ratio
  - B. Receivable turnover ratio
  - C. Inventory turnover ratio
  - D. None of the above
- (1 mark)

50. Which one of the following assignments **BEST** describes an assignment that should be conducted by a major potential investor in a company?
- A. Forensic accounting
  - B. Forensic audit
  - C. External audit
  - D. None of the above
- (1 mark)

**SECTION II (50 MARKS)**

51. Describe the following accounting concepts in relation to financial reporting:
- (i) Accrual basis of accounting. (5 marks)
  - (ii) Going concern. (5 marks)
  - (iii) Double entry theory. (5 marks)
  - (iv) Matching principle. (5 marks)
- (Total: 20 marks)**
52. Discuss **THREE** activities associated with a statement of cash flows. **(Total: 15 marks)**
53. Differentiate between “forensic audit” and “forensic accounting” in regard to the following:
- (i) Objective. (2 marks)
  - (ii) Opinion or conclusion. (2 marks)
  - (iii) Scope. (2 marks)
  - (iv) Presumption. (2 marks)
  - (v) Timing. (2 marks)
- (Total: 10 marks)**
54. Identify **FIVE** fraudulent transactions that help to conceal asset misappropriation. **(Total: 5 marks)**
- .....



**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**PILOT PAPER**

**MARCH 2025.**

**Time Allowed: 3 hours.**

**Answer ALL questions. This paper has two Sections. SECTION I consists of fifty (50) Multiple Choice Questions carrying fifty (50) marks. SECTION II has four (4) structured questions carrying fifty (50) marks. Marks allocated to each question are indicated at the end of the question.**

**SECTION I (50 MARKS)**

1. Which of the following is **NOT** a required expertise for a forensic accountant?
- A. Writing a forensic report
  - B. Testifying in court as an expert witness
  - C. Basic principles of evidence
  - D. None of the above

(1 mark)

**ANSWER: D**

2. Forensic auditors do not necessarily have to be accountants. However, they must be knowledgeable in all the following areas **EXCEPT**?
- A. Identification of red flags and risks of fraud
  - B. Detection of fraud and corruption schemes
  - C. Advanced knowledge in financial reporting standards in both the private and public sector
  - D. Interviewing skills

(1 mark)

**ANSWER: C**

3. Which one of the following statements is **ACCURATE** in regard to departure from the respective IFRS in recognising revenue, costs and expenses, proper asset valuation and inadequate?
- A. Fair representation of the financial position and performance of the entity
  - B. Misrepresentation of both the financial performance and position of the entity
  - C. Reliable opinion in relation to the going concern
  - D. Misrepresentation of the financial performance of the entity

(1 mark)

**ANSWER: B**

4. Which of the following term is **NOT** a financial element of the company's statement of profit or loss and other comprehensive income?
- A. Revenue earned
  - B. Expenses incurred
  - C. Liabilities
  - D. Cost of revenue

(1 mark)

**ANSWER: C**



5. Which one of the following statements is **NOT** accurate in regard to the statement of financial position?
- A. Current assets are generally presented in order of liquidity on the statement of financial position
  - B. Non-current assets are recorded first in the statement of financial position
  - C. The statement of owner's equity is recorded in the statement of financial position
  - D. None of the above
- (1 mark)

**ANSWER: B**

6. Which one of the following is **NOT** accurate in regard to payables, receivables, liabilities, inventory, cash and bank?
- A. The above items are recorded in the balance sheet and are used to calculate the current ratio to measure an organisation's profit
  - B. A current ratio that is too favourable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be affected by overstated and understated receivables and payables respectively
  - D. None of the above
- (1 mark)

**ANSWER: A**

7. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which one of the following actions would balance the accounting equation?
- A. Reducing an expense
  - B. Increasing an expense
  - C. Increasing a liability
  - D. Reducing an asset
- (1 mark)

**ANSWER: B**

8. If a fraudster wanted to conceal misappropriation of cash, which one of the following actions would help to conceal an asset misappropriation?
- A. Reducing revenue
  - B. Reducing an expense
  - C. Reducing an asset
  - D. None of the above
- (1 mark)

**ANSWER: A**

9. Making a debit entry in any account would help to conceal an asset misappropriation, after making a credit entry then in misappropriated account. Which one of the following entries in the following accounts can help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Reducing an expense
  - C. Increasing revenue
  - D. None of the above
- (1 mark)

**ANSWER: D**

10. Julie runs a medium construction company. She got a contract to be performed over a period of five years. Janet signed a contract for the full contract amount with the client. By the end of Year 2 the company had performed and delivered only one fifth of the contract. Janet recorded the whole contract revenue amount in December of Year 2. Which one of the following is **NOT** true about the recording of that financial transaction?
- A. The transaction understated the revenue earned during that financial year
  - B. The transaction overstated the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences
  - D. All of the above
- (1 mark)

**ANSWER: A**

11. Which of the following formulae is **ACCURATE** in regard to the accounting model?
- A.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the statement of performance
  - D. None of the above
- (1 mark)

**ANSWER: D**

12. Which of the following **CANNOT** be used to balance the accounting equation to conceal cash misappropriation?
- A. Reducing revenue
  - B. Increasing a liability
  - C. Increasing an expense
  - D. None of the above
- (1 mark)

**ANSWER: B**

13. Which of the following statements is **MOST ACCURATE** in regard to statement of profit loss and other comprehensive income and statements of cash flow?
- A. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's true financial position.
  - B. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's liquidity
  - C. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's performance
  - D. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's real profit
- (1 mark)

**ANSWER: C**

14. Which of the following financial items appears on the statement of financial position of an organisation?
- A. Owner 'Equity
  - B. Expenses
  - C. Gross profit
  - D. None of the above
- (1 mark)

**ANSWER: A**

15. Joel a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a trial of alleged financial statement fraud. Joel found that some of the overdue receivable accounts with substantial amounts were created from fictitious. Which of the following financial reporting would **NOT** be fraudulently affected by the above transaction?
- A. The receivables
  - B. The current ratio
  - C. Net profit
  - D. None of the above
- (1 mark)

**ANSWER: D**

16. XYZ company received an anonymous tip alerting the company that there is rampant fraud and corruption going on in the company, especially in their procurement and finance department. After analysing the information there was sufficient suspicion of fraudulent activity. Which of the following assignment should the company conduct?
- A. Forensic Accounting
  - B. Forensic audit
  - C. Fraud audit
  - D. Surprise audit
- (1 mark)

**ANSWER: B**

17. Which one of the following statements is **ACCURATE** regarding the statement of changes in owners' equity?
- A. It is not the same as the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial performance
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. None of the above
- (1 mark)

**ANSWER: C**

18. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result in which of the following?
- A. Overstated expenses
  - B. Overstated revenue
  - C. Understated net profit
  - D. None of the above
- (1 mark)

**ANSWER: D**

19. Which of the following statements is **ACCURATE** with regard to net profit?
- A. Net profit is recorded in the statement of financial performance
  - B. Net profit is equal to gross profit less cost of goods
  - C. Gross margin is equal to revenue less cost of goods
  - D. None of the above
- (1 mark)

**ANSWER: C**

20. To conceal the removal of a liability from the books, which of the following actions would balance the accounting equation?
- A. Reducing owners' equity
  - B. Decreasing an expense
  - C. Increasing an asset
  - D. None the above
- (1 mark)

**ANSWER: B**

21. Which one of the following type of financial statement fraud scheme is management likely to engage in to impress the shareholders and investors?
- A. Understatement of revenue
  - B. Overstatement of expenditure
  - C. Concealment of expenditure
  - D. Inadequate disclosures
- (1 mark)

**ANSWER: C**

22. Which one of the following is **NOT** a purpose of conducting a forensic accounting assignment?
- A. Forensic accounting can be conducted to resolve allegations of fraudulent financial reporting
  - B. Forensic accounting can be conducted to establish the exact financial performance and position of an organization
  - C. Forensic accounting can be conducted for purposes of acquisition or mergers
  - D. Forensic accounting can be conducted to collect audit evidence and express an opinion
- (1 mark)

**ANSWER: D**

23. Which of the following statement is **NOT** accurate in regard to presentation of liabilities in the statement of financial position?
- A. Liabilities are presented in the statement of financial position in order of liquidity
  - B. Liabilities are presented after assets in the statement of financial position
  - C. Liabilities are presented in order of maturity
  - D. Current liabilities are presented first followed by long term liabilities
- (1 mark)

**ANSWER: A**

24. Which one of the following statements is **ACCURATE** in regard to adjusting journal entries posted in the ledger accounts?
- A. Adjusting journal entries posted in the ledger accounts at the end of the financial year is a red flag of fraud
  - B. Adjusting journal entries posted in the ledger accounts at the end of the financial year are evidence of fraudulent financial transactions
  - C. Adjusting journal entries posted at the end of the financial year are all fraudulent
  - D. Adjusting journals do not require authorization like payments by a senior accounting staff (1 mark)

**ANSWER: A**

25. Statement of cash flows, from operating activities can, be read together with the statement of profit and loss, to detect fraudulent financial reporting. Which of the following financial statement fraud scheme can be detected by comparing the two financial statements?
- A. Overstatement of revenue scheme
  - B. Understatement of revenue scheme
  - C. Overstatement of expenses scheme
  - D. Inadequate disclosures (1 mark)

**ANSWER: A**

26. Which one of the following are financial items of the statement of owner's equity?
- A. Owner's equity and the retained earnings during the financial year
  - B. Owner's equity and net profit realized during the financial year
  - C. Owner's equity and the revenue earned during the financial year
  - D. Owner's equity and the gross profit earned during the financial year

**ANSWER: A**

27. Departure from IFRS, in recognising revenue can result in misrepresentation of the financial statements. Which of the following statement is **NOT** accurate in regard to departure from IFRS?
- A. Departure from IFRS, in recognising revenue would result in inflated net profit
  - B. Departure from IFRS, in recognising revenue would result in overstated receivables
  - C. Departure from IFRS, in recognising revenue would result in understated current ratio
  - D. Departure from IFRS, in recognising revenue would result in inflated current ratio (1 mark)

**ANSWER: C**

28. Which one of the following statements is **ACCURATE** in regard to investment activities of the statements of cash flow?
- A. Investment activities of the statements of cash flow shows cash in from interest received
  - B. Investment activities of the statements of cash flow shows cash in from sale of assets
  - C. Investment activities of the statements of cash flow shows cash in from financing
  - D. Investment activities of the statements of cash flow shows cash in from revenue (1 mark)

**ANSWER: B**

29. Which one of the following statements is **ACCURATE** in regard to the matching principle?
- A. The matching principle requires that revenue and expenses to be recorded during the same accounting period
  - B. According to the matching principle assets and liabilities should be recorded during the same accounting period
  - C. The matching principle requires that revenue and expenses should be matched with those of the previous accounting period
  - D. According to the matching principle assets and liabilities should be matched with those of the previous accounting period (1 mark)

**ANSWER: A**

30. Which one of the following statements is **ACCURATE** in relation to current ratio?
- A. Overstatement of revenue would result to understated current ratio
  - B. Understated revenue would result to overstated current ratio
  - C. Overstatement of revenue would result to overstated current ratio
  - D. Understatement of revenue would not have any effect on the current ratio
- (1 mark)

**ANSWER: C**

31. Which one of the following is the first item on the income statement?
- A. Net revenue
  - B. Net profit
  - C. Gross profit
  - D. Gross revenue
- (1 mark)

**ANSWER: A**

32. Which one of the following are the first items on the statement of financial position?
- A. Current liabilities
  - B. Non- current assets
  - C. Current assets
  - D. Liabilities
- (1 mark)

**ANSWER: C**

33. Which one of the following **BEST** explains which type of information must be disclosed in the financial statements?
- A. All information related to the reporting period
  - B. All material information related to the reporting period
  - C. All relevant information related to the reporting period
  - D. All audit evidence related to the reporting period
- (1 mark)

**ANSWER: B**

34. Receivables turnover ratio can help to detect which one of the following financial statement fraud schemes?
- A. Overstated revenue scheme
  - B. Understated revenue schemes
  - C. Understated receivables
  - D. Fictitious revenue scheme
- (1 mark)

**ANSWER: D**

35. Progress on auditor's recommendations, pending bills note and analysis and IFMIS generated reports, should be disclosed in which one of the following entities financial statements?
- A. MDA's
  - B. Public Companies
  - C. Private companies
  - D. Government ministries
- (1 mark)

**ANSWER: A**

36. Which one of the following is an objective of a forensic fraud audit?
- A. To prove the allegations of fraud
  - B. To disapprove the allegations of fraud
  - C. To prove or disapprove the allegations of fraud
  - D. To express an opinion whether fraud has occurred or not
- (1 mark)

**ANSWER: C**

37. Which one of the following statements is **NOT** accurate in regard to auditors skills and knowledge of auditing for fraud in an audit engagement?
- A. The auditor should have knowledge in fraud and corruption schemes
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and mitigation
  - C. The auditor should have skills and knowledge in tests and procedures specifically designed to detect fraud
  - D. The auditor should have fraud investigative skills
- (1 mark)

**ANSWER: D**

38. Which one of the following assignment is **NOT** an investigation engagement?
- A. Forensic fraud audit
  - B. Special audit
  - C. Fraud examination
  - D. Fraud investigation
- (1 mark)

**ANSWER: B**

39. Fraud examiners do not have to be accountants; but they must be knowledgeable in which one of the following areas?
- A. Financial accounting
  - B. Management accounts
  - C. Financial statement fraud schemes
  - D. Auditing skills
- (1 mark)

**ANSWER: C**

40. Which one of the following transactions would result to misrepresentation of the statement of financial position?
- A. Inadequate disclosures
  - B. Fictitious revenue
  - C. Related party's transactions
  - D. Earned revenue
- (1 mark)

**ANSWER: B**

41. Which one of the following transactions would result to misrepresentation of the statement of financial performance?
- A. Inadequate disclosures
  - B. Reporting entities
  - C. Related party's transactions
  - D. Capitalisation of expenditure
- (1 mark)

**ANSWER: D**

42. Non-Current assets are presented on the statement of financial position in which of the following order?
- A. Maturity
  - B. Amount value
  - C. Liquidity
  - D. Realizable value
- (1 mark)

**ANSWER: C**

43. Which one of the following transactions would balance an accounting equation?
- A. Increasing owners' equity
  - B. Increasing an expense
  - C. Increasing a liability
  - D. Reducing an expense
- (1 mark)

**ANSWER: B**

44. If a fraudster wanted to conceal the misappropriation of cash, which of the following entry would help to conceal an asset misappropriation.
- A. Decreasing an asset
  - B. Decreasing an expense
  - C. Decreasing a liability
  - D. Decreasing an expenditure
- (1 mark)

**ANSWER: C**

45. Which one of the following statements is **NOT** accurate in regard to recording of revenue?
- A. Revenue should be recorded when it is earned
  - B. Revenue should only be recorded when it is received
  - C. Revenue recorded should be net
  - D. Only revenue for services or goods delivered should be recorded
- (1 mark)

**ANSWER: B**

46. If a statement of cash flows recorded negative balances from the operating activities, such situation is indicative of which one of the following financial statement frauds?
- A. Fictitious revenue scheme
  - B. Skimming of receivables
  - C. Overstated payables
  - D. Skimming of cash
- (1 mark)

**ANSWER: A**

47. Which one of the following is a type of financial statement fraud related to inadequate provision for expected credit loss?
- A. Overstated receivables
  - B. Understated receivable
  - C. Inadequate disclosure
  - D. Overstated expenses
- (1 mark)

**ANSWER: A**

48. Which one of the following statements is **NOT** accurate in regard to financial items?
- A. Inadequate disclosures are financial statements items
  - B. Unpaid expenses are financial statement items
  - C. Unearned revenue is not a financial item
  - D. Unearned revenue is not a disclosure item
- (1 mark)

**ANSWER: A**

49. Which of the following activity should management proactively conduct to detect fraudulent activities in a finance department?
- A. Fraud audit
  - B. Fraud investigation
  - C. Value for money audit
  - D. Fraud Examination
- (1 mark)

**ANSWER: A**

50. Redbrick Limited management want to inflate the company's financial performance. Which one of the following fraud schemes would help them to achieve their objective?
- A. Inadequate disclosure
  - B. Overstating expenditure
  - C. Recognising long term contract revenue in year 1 of performance
  - D. Proportioning revenue based on completed work
- (1 mark)

**ANSWER: C**

**SECTION II (50 MARKS)**

51. Explain how the following financial statements would be affected by a fictitious revenue transaction:
- (a) Statement of financial position. (5 marks)
  - (b) Statement of financial performance. (5 marks)
  - (c) Current ratio. (5 marks)
  - (d) Net profit. (5 marks)
- (Total: 20 marks)**
52. In the context of forensic accounting, discuss **FIVE** types of non-fraud forensic accounting engagements. **(Total:15 marks)**
53. (a) Differentiate between “forensic accounting” and “forensic audit”. (2 marks)
- (b) Discuss **FOUR** types of forensic accounting assignments. (8 marks)
- (Total:10 marks)**
54. Highlight **FIVE** characteristics of a professional forensic auditor or a fraud examiner. **(Total: 5 marks)**
- .....

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**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 2 December 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of one hundred (100) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct Answer. Each question is allocated one (1) mark.**

1. Which one of the following audits is suitable for court use?
  - A. Forensic audit
  - B. External audit
  - C. Internal audit
  - D. All types of audits(1 mark)
  
2. Which one of the following skills is a necessary skill for a forensic auditor?
  - A. Basic knowledge of rules of evidence
  - B. Good knowledge of finance and accounting
  - C. Advanced audit skills
  - D. Good knowledge of International Reporting Standards(1 mark)
  
3. Forensic auditors must be knowledgeable in all of the following, **EXCEPT** \_\_\_\_\_.
  - A. identification of fraudulent accounting transactions
  - B. detection of fraud and corruption schemes
  - C. conduct investigations in all areas without technical assistance
  - D. identification of red flags and fraud risks(1 mark)
  
4. Improper recognition of revenue, omission of expenses, improper asset valuation would result in which one of the following misrepresentations?
  - A. Misrepresentation of the financial position
  - B. Both misrepresentation of the financial performance and position
  - C. Misrepresentation of the financial position
  - D. Overstated current ratio(1 mark)
  
5. Which one of the following is **NOT** an element of statement of profit or loss and other comprehensive incomes?
  - A. Unearned revenue
  - B. Accrued expenses
  - C. Earned unpaid revenue
  - D. Cost of revenue(1 mark)

6. Which one of the following statements is **NOT** accurate in regard to the statement of financial position?
- A. Current assets are generally presented after the non-current assets in the statement of financial position
  - B. Non-current assets are recorded in the statement of financial position
  - C. The statement of owner's equity is recorded in the statement of financial position
  - D. Current assets are generally presented first in order of liquidity
- (1 mark)
7. Which one of the following statements is **ACCURATE** in regard to the current ratio?
- A. The above items are recorded in the balance sheet and are used to calculate the quick ratio to measure an organisation's liquidity
  - B. A current ratio that is too favorable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be overstated by understated receivables and overstated current liabilities respectively
  - D. None of the above
- (1 mark)
8. Which one of the following transactions will **NOT** balance the accounting equation?
- A. Reducing an asset
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. Reducing revenue
- (1 mark)
9. Which one of the following entry into the books of account would help to conceal an asset misappropriation?
- A. Increasing revenue
  - B. Reducing an expense
  - C. Decreasing payables
  - D. Increasing payables
- (1 mark)
10. Patrick Wawire runs a medium road construction company. He was awarded a contract to be performed over a period of 3 years. By the end of year 2, the company had performed and delivered only one third of the contract. Patrick recorded the whole contract revenue amount in December of year 2.
- Which one of the following statements is **NOT** accurate in regard to the recording of the financial transaction?
- A. The revenue was recorded in accordance with the IFRS for recognising revenue.
  - B. The transaction overstated the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to improper revenue recognition
  - D. The revenue was not recorded in accordance with the IFRS for recognising revenue.
- (1 mark)
11. Blue Green company recorded substantial profits. The statement of cash flow recorded negative balances from the operating activities. Which one of the following is a scheme that was likely perpetrated?
- A. Understated revenue
  - B. Fictitious revenue scheme
  - C. Overstated payables
  - D. Overstated non-current assets
- (1 mark)
12. Which of the following is **NOT** accurate in regard to accounting model?
- A.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the statement of financial position
  - D. The accounting model is presented in the net worth of an organisation
- (1 mark)

13. Which one of the following transactions **CANNOT** complete the double entry?
- A. Reducing revenue
  - B. Reducing a liability
  - C. Reducing an expense
  - D. Reducing income
- (1 mark)
14. The statement of cash flows is often read together with the statement of profit or loss to determine which one of the following?
- A. A company's true financial performance
  - B. A company's liquidity
  - C. A company's financial position
  - D. A company's net worth
- (1 mark)
15. Which one of the following is an element of the statement of financial position?
- A. Revenue
  - B. Expenses
  - C. Gross profit
  - D. Current liabilities
- (1 mark)
16. Which one of the following transactions would overstate assets in the statement of financial position?
- A. Fictitious revenue
  - B. Overstated cost of goods
  - C. Accrual of expenses
  - D. Earned revenue
- (1 mark)
17. Which one of the following exercise should an organisation conduct in response to confirmed allegations of fraud?
- A. An in-depth audit
  - B. Special audit
  - C. Forensic audit
  - D. Fraud audit
- (1 mark)
18. Which one of the following exercise should an organisation conduct first in response to a fraud anonymous tip?
- A. A fraud audit
  - B. Special audit
  - C. An inquiry
  - D. Forensic audit
- (1 mark)
19. Which one of the following statements is **NOT** accurate in regard to the statement of changes in owners' equity?
- A. It is similar to the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. It shows the entity's financial position and performance
- (1 mark)

20. Which one of the following transactions would inflate the gross profit?
- A. Understated direct cost of sales
  - B. Earned revenue
  - C. Understated expenses
  - D. Accrued expenses
- (1 mark)
21. Which one of the following statements **BEST** describes why the proper basis for recording a piece of equipment is at the cost value?
- A. The cost value is more objective
  - B. The cost value is subjective
  - C. The cost value is less than the market value
  - D. The cost value is more than the market value
- (1 mark)
22. Which of the following statements is **NOT** accurate in regard to net profit?
- A. Net profit is recorded in the statement of profit and loss
  - B. Net profit is equal to gross profit less operating expenses
  - C. Net profit is equal to revenue less cost of revenue
  - D. Net profit is equal to gross profit less cost of revenue
- (1 mark)
23. The assumption that a business will continue in operations in the next financial year is referred to as \_\_\_\_\_.
- A. consistency
  - B. profitability
  - C. liquidity
  - D. going concern
- (1 mark)
24. Which one of the following is **NOT** an activity in the statements of cash flow?
- A. Operating activities
  - B. Investment activities
  - C. Cash activities
  - D. Financing activities
- (1 mark)
25. Which one of the following accounting principles requires expenses and revenue to be recorded in the same financial year?
- A. Comparability principle
  - B. Consistency principle
  - C. Materiality principle
  - D. Matching principles
- (1 mark)
26. Which of the following statements is **ACCURATE** in regard to recognising revenue for work that is to performed and delivered in the following financial year?
- A. Revenue will be understated
  - B. Receivables will be overstated
  - C. Current ratio will be understated
  - D. Receivables will be understated
- (1 mark)

27. Which of the following statements is **ACCURATE** in regard to IFRS and financial reporting?
- A. IFRS enhance transparency, comparability and trust in the global financial sector
  - B. IFRS helps to increase the net worth of the financial position
  - C. IFRS financial reporting standards are mandatory for financial reporting in all jurisdictions
  - D. IFRS decrease the net worth of the financial position
- (1 mark)
28. Which one of the following statements is **ACCURATE** in regard to the statement of cash flows?
- A. The statement of cash flows is often read together with the statement of profit or loss to determine a company's true financial performance
  - B. The statement of cash flows reports a company's assets and uses of cash during the accounting period
  - C. There are three types of cash flows activities; cash flows from operating activities, performance activities and financing activities
  - D. The statement of cash flows is often read together with the statement of profit or loss to determine a company's true financial position
- (1 mark)
29. Which one of the following **BEST** explains failure to disclose important information that the user of the financial statements would like to know?
- A. Limited disclosure
  - B. Inadequate disclosure
  - C. Financial statement fraud
  - D. Related party transactions
- (1 mark)
30. Which one of the following financial ratios can be used to detect fictitious revenues?
- A. Current ratio
  - B. Non-current ratio
  - C. Receivables turnover ratio
  - D. Inventory turnover ratio
- (1 mark)
31. Which one of the following statements is **NOT** accurate in regard to a situation where the note and analysis on pending bills in the financial statement and the pending bills listing do not balance?
- A. It is a red flag of overstated pending bills
  - B. It is a red flag of concealment of actuals versus budget
  - C. It is red flag of cash misappropriation
  - D. It is a red flag of overstated expenses
- (1 mark)
32. Which one of the following is **NOT** a major concern of government external auditors?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. That the entity's finance team are all qualified accountants
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's financial Statements
- (1 mark)
33. Forensic accountants and auditors are expected to observe the following is code of ethics, **EXCEPT** \_\_\_\_\_.
- A. confidentiality
  - B. integrity, independence and objectivity
  - C. responsibility to the profession
  - D. intelligence
- (1 mark)

34. Which one of the following statements is **NOT** accurate in regard to risk-based audit?
- A. The auditor should prioritise the audit according to the level of the risk, that is, high to medium approach
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and mitigation
  - C. To detect fraud in high-risk areas, the auditor uses tests and procedures specifically designed to detect fraud
  - D. The auditor should be knowledgeable in fraud risk identification, assessment and investigations of fraud risks (1 mark)
35. Which one of the following assignments is the same as fraud investigations?
- A. Forensic fraud audit
  - B. Special audit
  - C. Fraud audit
  - D. Surprise audit (1 mark)
36. Forensic auditors must have knowledge in which one of the following areas?
- A. Basic knowledge in laws related to fraud
  - B. Preparation of financial statement
  - C. Preparation of management accounting
  - D. Financial reporting (1 mark)
37. Departure from the respective IFRS for recognising revenue, improper deferral of costs and expenses, improper asset valuations and inadequate disclosure could result to the following, **EXCEPT** \_\_\_\_\_.
- A. misrepresentation of the statement of financial position
  - B. faithful presentation of the financial performance and position
  - C. allegations of fraudulent financial reporting
  - D. misrepresentation of the statement of financial performance (1 mark)
38. Which one of the following statements **BEST** describes a company's statement of financial performance?
- A. The company's financial position at the end of the financial year
  - B. The changes in the total owners' equity amount listed on the statement of financial position
  - C. The company's profit (or loss) during the financial year
  - D. The company's sources and uses of cash during a particular period of time (1 mark)
39. Which one of the following statements is **ACCURATE** in regard to statement of financial position?
- A. Non-current assets are generally presented on the statement of financial position in order of maturity
  - B. Statements of financial position is usually manipulated by overstating assets and understating liabilities
  - C. Revenues and expenses accounts are recorded in statement of cash flow
  - D. Non- current assets are more vulnerable to manipulation than current assets (1 mark)
40. Which one of the following financial statements is capital expenditure recorded?
- A. Statement of changes in owners' equity
  - B. Statement of profit or loss
  - C. Statement of cash flows
  - D. Statement of financial position (1 mark)

41. Which one of the following entries would **NOT** result in a balanced accounting equation?
- A. Reducing owners' equity
  - B. Creating an expense
  - C. Decreasing a liability
  - D. Decreasing an expense
- (1 mark)
42. Which one of the following entries would decrease an asset?
- A. Debit entry
  - B. Credit entry
  - C. Cash entry
  - D. Double entry
- (1 mark)
43. Which of the following statements is **NOT** accurate in regard to recording revenue in the books of account?
- A. Recording receivable revenue
  - B. Recording revenue deposit
  - C. Recording cash revenue
  - D. Recording earned revenue
- (1 mark)
44. Green Apple Company recorded substantial profits while their cash balances were on the negative from the operating activities. Which one of the following is **NOT** a red flag of financial statement fraud?
- A. Fictitious revenue scheme
  - B. Skimming of receivables
  - C. Overstated payables
  - D. Overstated expenses
- (1 mark)
45. Which one of the following transactions can a fraudster record in the books of account to conceal embezzlement of funds?
- A. Increasing revenue
  - B. Increasing a liability
  - C. Reducing an expenditure
  - D. Increasing an asset
- (1 mark)
46. Which one of the following financial statements would help to measure the efficiency of cash management of an organisation?
- A. Statement of cash flow
  - B. Statement of financial performance
  - C. Statement of financial position
  - D. Statement of retained earnings
- (1 mark)
47. Which one of the following items is **NOT** a current asset?
- A. Receivables
  - B. Cash
  - C. Inventory
  - D. Payables
- (1 mark)

48. The requirement under the IFRS that all important information should be included in the financial statements is referred to as \_\_\_\_\_.  
A. material information  
B. adequate disclosures  
C. financial statements items  
D. indepth investigation (1 mark)
49. Which one of the following assignments would be performed by a company that wants to acquire another entity to establish the real financial performance and position of the organisation?  
A. An independent audit  
B. Forensic accounting  
C. Forensic audit  
D. Fraud audit (1 mark)
50. Which one of the following statements is **NOT** accurate in regard to the statement of owners' equity?  
A. Changes in owners' equity is similar to the statement of retained earnings  
B. Changes in owners' equity is capital plus retained earnings  
C. Changes in owners' equity is capital plus earnings  
D. Changes in owners' equity is an item of the statement of financial position (1 mark)
51. Which one of the following accounting principles require that revenue and cost of revenue be recorded during the same accounting period?  
A. Corresponding principle  
B. Double entry principle  
C. Comparability principle  
D. None of the above (1 mark)
52. Which one of the following statements describe the proper basis for recording a piece of equipment or vehicle in the books of account?  
A. Historical cost or revaluation amount less accumulated depreciation  
B. Sales value less accumulated depreciation  
C. Current market value  
D. Revaluation value (1 mark)
53. Which one of the following statements is **ACCURATE** in regard to gross margin?  
A. Gross margin is the difference between cost of sales and operating costs  
B. Gross margin is equal to net revenue less cost of goods sold  
C. Gross margin is equal to revenue less cost of sales  
D. Gross margin is equal to net sales less cost of and operating cost (1 mark)
54. Which one of the following financial statements is expenditure recorded?  
A. Statement of changes in owners' equity  
B. Statement of profit or loss  
C. Statement of cash flows  
D. Statement of financial position (1 mark)



55. Which one of the following assignments is the same as fraud detection?
- A. Forensic fraud audit
  - B. Fraud examination
  - C. Fraud audit
  - D. Fraud investigation
- (1 mark)

56. Which one of the following accounts are presented in order of maturity in the statement of financial position?
- A. Liabilities
  - B. Non- current assets
  - C. Current assets
  - D. Expenditure
- (1 mark)

**ANSWER A**

57. Which one of the following financial account elements are presented in order of liquidity in the statement of financial position?
- A. Liabilities
  - B. Non-current assets
  - C. Current assets
  - D. Expenditure
- (1 mark)

58. Flora Mumbi runs a flower delivery company. She uses the accrual basis of accounting on a yearly basis. In the year 2023, a customer placed an order of Sh.150,000 for a wedding that will take place in the year 2024. The customer then paid for the flowers in full when placing the order in the year 2023. Which one of the following statements is **ACCURATE** in regard to recording of the revenue and the expenses of the order?
- A. Flora should record revenue and expenses in the year 2024
  - B. Flora should record the revenue in the year 2023 and the expenses in the year 2024
  - C. Flora should record the revenue and expenses in the year 2023
  - D. Flora should record revenue in the year the revenue was received
- (1 mark)

59. In which one of the following assignments would require the services of a forensic auditor?
- A. Bankruptcy and reorganisation
  - B. Economic damage calculation in lawsuits
  - C. Business valuation
  - D. Fraud investigations
- (1 mark)

60. Which one of the following concepts require that the financial statements be complete, neutral and free from fraud or error?
- A. Relevance
  - B. Comparability
  - C. Faithful representation
  - D. Consistency
- (1 mark)

61. Which one of the following transactions would **NOT** balance the accounting equation?
- A. Increasing owners' equity
  - B. Increasing revenue
  - C. Increasing an expenditure
  - D. Increasing a different liability
- (1 mark)

62. Which of the following category of cash flows activities would increase cash balances but not from the organisation's performance?  
A. Operating activities  
B. Financing activities  
C. Revenue activities  
D. Cash activities (1 mark)
63. Which one of the following statements is **ACCURATE** in regard to inadequate disclosures?  
A. Disclosures amounts are financial statements elements  
B. Disclosures amounts are not financial statements elements  
C. Disclosures should not be part of financial reporting  
D. Failure to include disclosures would not fraudulently affect the financial reporting (1 mark)
64. Which one of the following transactions would fraudulently affect the current ratio?  
A. Accrual of expenses  
B. Proper valuation of inventory  
C. Omission of expenses  
D. Writing off bad debts (1 mark)
65. Under IPSAS, MDAs financial statements should **NOT** include which one of the following disclosures?  
A. Management accounts  
B. Pending bills note and analysis  
C. IFMIS generated reports  
D. None of the above (1 mark)
66. Which one of the following statements is **NOT** accurate in regard to financial reporting of MDAs?  
A. Kenya has adopted IFRS for financial reporting  
B. Kenya has adopted IPSAS for financial reporting for MDAs  
C. IPSAS financial reporting require that MDAs use the accrual basis of accounting  
D. IPSAS financial reporting require that MDAs use the cash basis of accounting (1 mark)
67. Which one of the following is **NOT** one of those reporting areas under the IFRS?  
A. Revenue recognition  
B. Asset valuation  
C. Disclosures  
D. None of the above (1 mark)
68. Which one of the following is **NOT** one of those code of ethics for fraud examiners?  
A. Competence  
B. Objectivity  
C. Continuous learning  
D. Dependency (1 mark)

69. Which one of the following is **NOT** a fraudulent financial reporting scheme?
- A. Recognising long term contract revenue in the first year of performance
  - B. Inadequate provision for bad and doubtful debts
  - C. Capitalising expenditure
  - D. Accruing expenses
- (1 mark)
70. Which one of the following is **NOT** a financial statement fraud scheme?
- A. Adequate disclosures
  - B. Omission of expenses expenditure
  - C. Capitalisation of expenditure
  - D. Failure to write off bad debts
- (1 mark)
71. Which one of the following engagements should auditors perform when auditing for economy, efficiency and effectiveness in procurement?
- A. Special audits
  - B. Fraud audit
  - C. Surprise audit
  - D. Value for money audits
- (1 mark)
72. Which one of the following assignments would **NOT** specifically require a forensic accountant?
- A. Calculation in lawsuits
  - B. Business valuation
  - C. Business combination
  - D. Fraud investigations
- (1 mark)
73. Red Limited management and board of directors deliberately failed to write off substantial amount of bad debts. What type of financial statement fraud was management perpetrating?
- A. Improper liabilities valuation
  - B. Improper current assets valuations
  - C. Improper non-current asset valuation
  - D. Improper assets net adjustment
- (1 mark)
74. Which one of the following statements is **NOT** accurate in regard to recording of fictitious revenue? Fictitious revenue will result to \_\_\_\_\_.
- A. overstated receivables
  - B. inflated profits
  - C. overstated current ratio
  - D. understated current ratio
- (1 mark)
75. Which one of the following is **NOT** a root cause of financial statements fraud?
- A. Absence of internal controls
  - B. Situational pressure
  - C. Inadequate oversight by the board
  - D. Rationalisation
- (1 mark)

76. Revenue and the corresponding cost of revenue should be recorded in the same accounting period. This accounting principle is called \_\_\_\_\_.  
A. consistency principle  
B. comparability principle  
C. materiality principle  
D. matching principle (1 mark)
77. Which one of the following is an item of the statement of cash flows activities from operating activities?  
A. Investment dividends  
B. Share capital  
C. Cash from a loan  
D. Revenue cash (1 mark)
78. Which one of the following financial ratio can be used to measure an organisation's ability to meet its immediate financial obligations?  
A. Current ratio  
B. Quick ratio  
C. Receivable turnover ratio  
D. Liquidity ratio (1 mark)
79. Which of the following is **NOT** accurate in regard to financial reporting in Kenya?  
A. Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and public sector respectively  
B. Nairobi Securities Exchange require companies trading in the Securities exchange with public accountability to use IFRS  
C. Public sector is also required to use IFRS in financial reporting  
D. None of the above (1 mark)
80. Which one of the following statements is **NOT** accurate in regard to the statements of financial position for public companies?  
A. Liabilities are generally presented on the statement of financial position in order of maturity  
B. Statements of financial position is usually manipulated by overstating assets and understating liabilities  
C. The statement of financial position shows the net worth of a company at a given financial year  
D. Statements of financial position is usually manipulated by overstating expenses and understating revenue (1 mark)

**ANSWER D**

81. Which one of the following fraud schemes is common in the preparation of financial statements?  
A. Overstated income and understated expenses  
B. Overstated liabilities and expenses  
C. Understated working capital  
D. Understated current assets (1 mark)
82. Which one of the following is **ACCURATE** in regard to recording of payables?  
A. Failure to record payables would inflate the current ratio  
B. Failure to record payables would understate the profit  
C. Failure to accrual expenses would overstate the current liabilities  
D. Failure to record payables would understate the current ratio (1 mark)

83. Which of the following statements is **NOT** accurate in regard to a forensic audit?
- A. The forensic auditor should assume that a forensic audit will end up in court
  - B. The forensic audit should be conducted only on sufficient predication
  - C. The scope of a forensic audit should be wide enough to uncover all the fraudulent evidence
  - D. The scope of the forensic audit should be specific to the allegations
- (1 mark)
84. Which of the following is **NOT** a characteristics of a forensic auditor?
- A. A friendly person
  - B. Patient
  - C. Too formal
  - D. Informal
- (1 mark)
85. Which of the following statements is **NOT** accurate in regard to forensic audit reporting as opposed to audit reports?
- A. The conclusion of an audit report is an opinion
  - B. The conclusion of a forensic audit report is a summary of the findings
  - C. Conclusion and recommendations in a forensic report are the same and the terms can be used interchangeably
  - D. Conclusion and recommendations contents in a forensic report are not the same
- (1 mark)
86. Which of the following is **NOT** accurate in regard to the skills of a forensic auditor?
- A. A forensic auditor should have good knowledge of rules of evidence
  - B. A forensic auditor should have good knowledge of laws related to fraud
  - C. A forensic auditor should have good interviewing skills
  - D. A forensic auditor should have good auditing skills
- (1 mark)
87. Which of the following is **NOT** accurate in regard to disclosures under the IFRS?
- A. Disclosures in financial statements is one of the IFRS
  - B. IFRS's leave room for interpretation
  - C. IFRS's does not require lengthy disclosures on financial statement
  - D. IFRS's requires lengthy disclosures on financial statement
- (1 mark)
88. Strict adherence to IFRS would result to \_\_\_\_\_.
- A. fair recognition of revenue
  - B. an understated performance of an organisation
  - C. fair representation of the financial position of an organisation
  - D. unfair recognition of revenue
- (1 mark)
89. Which one of the following is **NOT** an element of statement of profit or loss?
- A. Revenue
  - B. Bad debts
  - C. receivables
  - D. Expenditure
- (1 mark)

90. Which one of the following is an item shown in the statement of owners' equity?
- A. Current liabilities
  - B. Revenue
  - C. Retained profit
  - D. Expenses
- (1 mark)
91. Which one of the following is **NOT** an item of cash flows activities from financing activities?
- A. Dividends from investments
  - B. Sale of public shares
  - C. Cash from sale of an asset
  - D. Cash from a loan
- (1 mark)
92. Which one of the following statements is **ACCURATE** in regard to forensic audit and fraud investigations assignments?
- A. Forensic audit is not an investigation engagement
  - B. The objective of a forensic audit and an investigation is to collect evidence to prove an allegation
  - C. Forensic audit or investigation is a methodology of resolving fraud issues from inception to disposition
  - D. Forensic audit or investigation is a methodology of resolving fraud allegations from inception to disposition
- (1 mark)
93. Which one of the following is an item of statement of cash flows activities from investment activities?
- A. Revenue
  - B. Funds from a loan
  - C. Cash from sale of an asset
  - D. Cash from interests
- (1 mark)
94. Which one of the following statements is **NOT** accurate in regard to payables?
- Unpaid expenditures are \_\_\_\_\_.
- A. financial statements items
  - B. not financial statements items
  - C. items of statement of profit or loss
  - D. items of statement of financial position
- (1 mark)
95. Which one of the following statements is **ACCURATE** in regard to transactions which can be controlled by directors of a company that they doing business with?
- A. Related party's transactions are not disclosure items
  - B. All related party's transactions are fraudulent
  - C. Related party's transactions are not necessarily fraudulent
  - D. Related party' transactions are not allowed under IFRS
- (1 mark)
96. Which one of the following financial statements fraud scheme involves recognising expenses as assets?
- A. Capitalising expenses
  - B. Omission of expenses
  - C. Overstating of assets
  - D. Understating assets
- (1 mark)

97. Which one of the following financial statements fraud schemes involves omission of expenses?
- A. Understatement of expenses
  - B. Overstatement of expenses
  - C. Overstating of assets
  - D. Capitalising of expenses
- (1 mark)
98. Which one of the following financial statements fraud schemes involves recognising revenue that has not been earned?
- A. Overstatement of revenue
  - B. Fictitious revenue
  - C. Understatement of receivables
  - D. Understatement of revenue
- (1 mark)
99. Which one of the following financial statements fraud schemes involves failure to write off obsolete inventory?
- A. Capitalising expenses
  - B. Improper asset valuation
  - C. Overstatement of assets
  - D. Overstatement of expenses
- (1 mark)
100. Which one of the following is **NOT** a disclosure item in the financial statements?
- A. Related party's transactions
  - B. Anticipated legal cost
  - C. Unanticipated legal costs
  - D. Warrants
- (1 mark)
- .....

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**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 19 August 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of one hundred (100) Multiple Choice Questions. Answer all questions by indicating the letter (A, B, C or D) that represents the correct Answer. Each question is allocated one (1) mark.**

1. Which one of the following statements **BEST** describes the difference between fraud audit and forensic fraud audit?
  - A. Forensic fraud audit is a methodology of resolving fraud allegations while fraud audit is a proactive activity aimed at detecting fraud
  - B. The objective of a forensic audit is to collect evidence to prove or disapprove an allegation while the objective of a fraud audit is to express an opinion whether fraud has occurred or not
  - C. Both forensic fraud audit and fraud audit are reactive audit assignments
  - D. Both forensic fraud audit and fraud audit are proactive assignments (1 mark)
2. Which one of the following statements is **ACCURATE** in regard to forensic audit?
  - A. A forensic audit should be conducted once red flags of fraud are identified
  - B. A forensic audit should be conducted once an area has been evaluated as a high fraud risk
  - C. A forensic audit should be conducted only when there is sufficient suspicion of fraud
  - D. A forensic audit should be conducted only on a recommendation by the auditor (1 mark)
3. Which one of the following statements is **NOT** accurate in regard to the essential skills of a forensic auditor?
  - A. The forensic auditor must have good interviewing skills
  - B. The forensic auditor must have good experience and skills in audit process and procedures
  - C. The forensic auditor must have good knowledge of the basic principles of evidence
  - D. The forensic auditor must have good knowledge of laws related to fraud and corruption (1 mark)
4. Which one of the following statements **CORRECTLY** describes how an expense incurred but not paid for should be recorded in the books of account?
  - A. The unpaid expenses should not be recorded during the accounting period
  - B. The unpaid expenses should be disclosed during the accounting period
  - C. The unpaid expenses should be recorded during the period when the payment is done
  - D. The unpaid expenses should be recorded during the accounting period (1 mark)
5. Which one of the following statements **BEST** describes why current ratio is a very important financial ratio?
  - A. The current ratio helps to determine if the organisation has made profits
  - B. The current ratio helps to determine if the organisation has overstated the current assets
  - C. The current ratio helps to determine if the organisation is able to liquidate the current liabilities during the financial year
  - D. The current ratio helps to determine if the organisation has understated current liabilities (1 mark)
6. A too favourable current ratio is a red flag of \_\_\_\_\_ schemes.
  - A. overstated current assets and understated liabilities
  - B. understated current assets and overstated liabilities
  - C. overstated current assets and overstated liabilities
  - D. understated current assets and understated liabilities (1 mark)



7. \_\_\_\_\_ decrease an asset.
- Making a debit entry in the assets account
  - Making a debit and credit entry in the assets account
  - Making a credit entry in the cash account
  - Making a credit entry in the assets account
- (1 mark)
8. Which one of the following statements is **ACCURATE** in regard to reducing an expense and concealing an asset misappropriation?
- Reducing an expense would balance the equation because the entry is a credit and the cash account the entry is a credit
  - Reducing an expense would not balance the equation because the entry is a credit, and the cash account the entry is also credit
  - Reducing an expense would balance the equation because the entry is a debit, and the cash account entry is also a debit
  - Reducing an expense would not balance the equation because the entry is a debit, and the cash account entry is also debit
- (1 mark)
9. Which one of the following statements is **ACCURATE** in regard to increasing a liability and concealing an asset misappropriation?
- The entry to increase a liability is a credit and therefore cannot balance the equation
  - The entry to increase a liability is a debit and therefore cannot balance the equation
  - The entry to increase a liability is a credit and therefore can balance the equation
  - The entry to increase a liability is a debit and therefore can balance the equation
- (1 mark)
10. Which one of the following statements is **ACCURATE** in regard to recording revenue in accordance with IFRS?
- IFRS require that revenue should be recognised once a contract or sale agreement is complete
  - IFRS require that revenue should be recognised once part delivery is made
  - IFRS require that revenue should be recognised when goods or services are delivered
  - IFRS require that revenue should be recognised only when revenue has been received
- (1 mark)
11. Negative cash flow balances from the operating activities and substantial profits during a financial year is a red flag of \_\_\_\_\_.
- overstated receivables
  - overstated revenue
  - understated expenses
  - understated payables
- (1 mark)
12. Bad and doubtful debts are red flags of \_\_\_\_\_.
- fictitious revenue scheme
  - fraudulent revenue
  - fictitious receivable
  - overstated receivables
- (1 mark)
13. Payables and expenses are recorded in \_\_\_\_\_.
- Statement of cash flows and profit and loss
  - Statement of financial position and profit and loss
  - Statement of owner's equity and financial position
  - Statement of cash flows and financial position
- (1 mark)
14. Which one of the following ledger entry can be a red flag of concealment of expenses?
- Credit entry in the expenses account
  - Credit entry in the revenue account
  - Credit entry in the liabilities account
  - Debit entry in the expenses account
- (1 mark)
15. Which one of the following statements is **NOT** accurate in regard to special audits and fraud audits?
- Special audits are conducted to confirm if there is sufficient predication
  - The objective of a fraud is to determine if fraud has occurred
  - The objective of special audits and fraud audits is not the same
  - Fraud audits are conducted to prove if fraud has occurred
- (1 mark)

16. The following statements are accurate in regard to statement of retained earnings, **EXCEPT** \_\_\_\_\_.  
A. the term statement of retained earnings can be used interchangeably with statement of changes in owner's equity  
B. statement of retained earnings, acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income  
C. the term statement of retained earnings cannot be used interchangeably with statement of changes in owner's equity  
D. the term statement of retained earnings cannot be used interchangeably with term net worth (1 mark)
17. Which one of the following statements describes how gross profit can be inflated?  
A. Gross profit can be inflated by failure to record the cost of goods or services in the same period the revenue is earned  
B. Gross profit can be inflated by failure to record operations cost in the same period the revenue is earned  
C. Gross profit can be inflated by recording the cost of goods or services in the same period the revenue is earned  
D. Gross profit can be understated by failure to record the cost of goods or services in the same period the revenue is earned (1 mark)
18. Which one of the following statements describes how net profit can be inflated?  
A. Net profit can be inflated by recording unpaid expenses  
B. Net profit can be inflated by recording revenue not received  
C. Net profit can be inflated by failure to record revenue not received  
D. Net profit can be inflated by failure to record incurred unpaid expenses (1 mark)
19. Which one of the statements is **ACCURATE** in regard to comparability qualitative characteristic?  
A. Comparability is the qualitative characteristic that can be used to identify risks of fraudulent financial reporting  
B. Comparability is the qualitative characteristic that can be used to identify red flags of fraudulent financial reporting  
C. Comparability is the qualitative characteristic that can be used to detect red flags of fraudulent financial reporting  
D. Comparability is the qualitative characteristic that can be used to detect risks of fraudulent financial reporting (1 mark)
20. Which one of the following knowledge must forensic accountants have in addition to the accounting knowledge?  
A. Good knowledge in auditing  
B. Law related to fraud and the rules of evidence  
C. Good knowledge of all the IFRS  
D. Good knowledge of all the IPSAS (1 mark)
21. Which of the following type of financial statement fraud scheme is management likely to engage in to impress the shareholders and investors?  
A. Understatement of revenue  
B. Overstatement of expenditure  
C. Concealment of expenditure  
D. Inadequate disclosures (1 mark)
22. Which one of the following is **NOT** a purpose of conducting a forensic accounting assignment?  
A. Forensic accounting can be conducted to resolve allegations of fraudulent financial reporting  
B. Forensic accounting can be conducted to establish the exact financial performance and position of an organisation  
C. Forensic accounting can be conducted for purposes of acquisition or mergers  
D. Forensic accounting can be conducted to collect audit evidence and express an opinion (1 mark)
23. Which one of the following statements is **NOT** accurate in regard to presentation of liabilities in the statement of financial position?  
A. Liabilities are presented in the statement of financial position in order of liquidity  
B. Liabilities are presented after assets in the statement of financial position  
C. Liabilities are presented in order of maturity  
D. Current liabilities are presented first, followed by long term liabilities (1 mark)

24. Which one of the following statements is **ACCURATE** in regard to adjusting journal entries posted in the ledger accounts?
- A. Adjusting journal entries posted in the ledger accounts at the end of the financial year is a red flag of fraud
  - B. Adjusting journal entries posted in the ledger accounts at the end of the financial year are evidence of fraudulent financial transactions
  - C. Adjusting journal entries posted at the end of the financial year are all fraudulent
  - D. Adjusting journals do not require authorisation like payments by a senior accounting staff (1 mark)
25. Statement of cash flows from operating activities can be read together with the statement of profit or loss to detect fraudulent financial reporting. Which of the following financial statement fraud scheme can be detected by comparing the two financial statements?
- A. Overstatement of revenue scheme
  - B. Understatement of revenue scheme
  - C. Overstatement of expenses scheme
  - D. Inadequate disclosures (1 mark)
26. Which of the following are financial items of the statement of owner's equity?
- A. Owner's equity and the retained earnings during the financial year
  - B. Owner's equity and net profit realised during the financial year
  - C. Owner's equity and the revenue earned during the financial year
  - D. Owner's equity and the gross profit earned during the financial year (1 mark)
27. Departure from IFRS in recognising revenue can result in misrepresentation of the financial statements. Which one of the following statements is **NOT** accurate in regard to departure from IFRS?
- A. Departure from IFRS in recognising revenue would result in inflated net profit
  - B. Departure from IFRS in recognising revenue would result in overstated receivables
  - C. Departure from IFRS in recognising revenue would result in understated current ratio
  - D. Departure from IFRS in recognising revenue would result in inflated current ratio (1 mark)
28. Which one of the following statements is **ACCURATE** in regard to investment activities of the statements of cash flow?
- A. Investment activities of the statements of cash flow shows cash in from interest received
  - B. Investment activities of the statements of cash flow shows cash in from sale of assets
  - C. Investment activities of the statements of cash flow shows cash in from financing
  - D. Investment activities of the statements of cash flow shows cash in from revenue Investment activities of the statements of cash flow shows cash in from interest received (1 mark)
29. Which one of the following statements is **ACCURATE** in regard to the matching principle?
- A. The matching principle requires that revenue and expenses be recorded during the same accounting period
  - B. According to the matching principle assets and liabilities should be recorded during the same accounting period
  - C. The matching principle requires that revenue and expenses should be matched with those of the previous accounting period
  - D. According to the matching principle, assets and liabilities should be matched with those of the previous accounting period (1 mark)
30. Which one of the following statements is **ACCURATE** in relation to current ratio?
- A. Overstatement of revenue would result to understated current ratio
  - B. Understated revenue would result to overstated current ratio
  - C. Overstatement of revenue would result to overstated current ratio
  - D. Understatement of revenue would not have any effect on the current ratio (1 mark)
31. Which one of the following is the first item on the statement of profit or loss?
- A. Net revenue
  - B. Net profit
  - C. Gross profit
  - D. Gross revenue (1 mark)

32. Which one of the following are the first items on the statement of financial position?
- A. Current liabilities
  - B. Non-current assets
  - C. Current assets
  - D. Liabilities
- (1 mark)
33. Which of the following statements **BEST** explains the type of information that must be disclosed in the financial statements?
- A. All information related to the reporting period
  - B. All material information related to the reporting period
  - C. All relevant information related to the reporting period
  - D. All audit evidence related to the reporting period
- (1 mark)
34. Receivables turnover ratio can help to detect \_\_\_\_\_.
- A. overstated revenue scheme
  - B. understated revenue schemes
  - C. understated receivables
  - D. fictitious revenue scheme
- (1 mark)
35. Progress on auditor's recommendations, pending bills note and analysis and IFMIS generated reports should be disclosed in which one of the following entities financial statements?
- A. MDAs
  - B. Public Companies
  - C. Private companies
  - D. Government ministries
- (1 mark)
36. Which one of the following statement refers to an objective of a forensic fraud audit?
- A. To prove the allegations of fraud
  - B. To disapprove the allegations of fraud
  - C. To prove or disapprove the allegations of fraud
  - D. To express an opinion whether fraud has occurred or not
- (1 mark)
37. Which one of the following statements is **NOT** accurate in regard to auditor's skills and knowledge of auditing for fraud in an audit engagement?
- A. The auditor should have knowledge in fraud and corruption schemes
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and mitigation
  - C. The auditor should have skills and knowledge in tests and procedures specifically designed to detect fraud
  - D. The auditor should have fraud investigative skills
- (1 mark)
38. Which one of the following assignment is **NOT** an investigation engagement?
- A. Forensic fraud audit
  - B. Special audit
  - C. Fraud examination
  - D. Fraud investigation
- (1 mark)
39. Fraud examiners do not have to be accountants but they must be knowledgeable in \_\_\_\_\_.
- A. financial accounting
  - B. management accounts
  - C. financial statement fraud schemes
  - D. auditing skills
- (1 mark)
40. \_\_\_\_\_ transaction would result to misrepresentation of the statement of financial position.
- A. Inadequate disclosures
  - B. Fictitious revenue
  - C. Related party's transactions
  - D. Earned revenue
- (1 mark)

41. Which one of the following transactions would result to misrepresentation of the statement of financial performance?
- A. Inadequate disclosures
  - B. Reporting entities
  - C. Related party's transactions
  - D. Capitalisation of expenditure
- (1 mark)
42. Non-current assets are presented on the statement of financial position in \_\_\_\_\_.
- A. maturity
  - B. amount value
  - C. liquidity
  - D. realisable value
- (1 mark)
43. Which one of the following transactions would balance an accounting equation?
- A. Increasing owners' equity
  - B. Increasing an expense
  - C. Increasing a liability
  - D. Reducing an expense
- (1 mark)
44. If a fraudster wanted to conceal the misappropriation of cash, which of the following entry would help to conceal an asset misappropriation?
- A. Decreasing an asset
  - B. Decreasing an expense
  - C. Decreasing a liability
  - D. Decreasing an expenditure
- (1 mark)
45. Which one of the following statements is **NOT** accurate in regard to recording of revenue?
- A. Revenue should be recorded when it is earned
  - B. Revenue should only be recorded when it is received
  - C. Revenue recorded should be net
  - D. Only revenue for services or goods delivered should be recorded
- (1 mark)
46. If a statement of cash flows recorded negative balances from the operating activities, such situation is indicative of which one of the following financial statement fraud?
- A. Fictitious revenue scheme
  - B. Skimming of receivables
  - C. Overstated payables
  - D. Skimming of cash
- (1 mark)
47. Which one of the following is a type of financial statement fraud related to inadequate allowance for bad and doubtful debts?
- A. Overstated receivables
  - B. Understated receivable
  - C. Inadequate disclosure
  - D. Overstated expenses
- (1 mark)
48. Which one of the following statements is **NOT** accurate in regard to financial items?
- A. Inadequate disclosures are financial statements items
  - B. Unpaid expenses are financial statement items
  - C. Unearned revenue is not a financial item
  - D. Unearned revenue is not a disclosure item
- (1 mark)
49. Which one of the following activities should management proactively conduct to detect fraudulent activities in procurement processes?
- A. Fraud audit
  - B. Fraud investigation
  - C. Value for money audit
  - D. Fraud investigation
- (1 mark)

50. Which one of the following engagements would **NOT** strictly require a forensic accountant?
- A. Fraud forensic audit
  - B. Calculation in lawsuits
  - C. Business mergers
  - D. Business acquisitions
- (1 mark)
51. Valentine Limited management want to inflate the company's financial performance. Which one of the following fraud scheme would help them to achieve their objective?
- A. Inadequate disclosure
  - B. Overstating expenditure
  - C. Recognising long term contract revenue in year 1 of performance
  - D. Proportioning revenue based on completed work
- (1 mark)
52. Which one of the following statements is **ACCURATE** in regard to fictitious revenue?
- A. Fictitious revenue will result to overstated receivables
  - B. Fictitious revenue will result to understated revenue
  - C. Fictitious revenue will result in understated current ratio
  - D. Fictitious revenue will result in understated receivables
- (1 mark)
53. Lack of adequate oversight by board of directors is a risk factor related to \_\_\_\_\_.
- A. financial statement fraud
  - B. asset misappropriation
  - C. corruption
  - D. fraudulent disbursements
- (1 mark)
54. Which one of the following statements is **NOT** accurate in regard to double entry concept?
- A. In every transaction there are two accounts; a debit and credit
  - B. A fraudster can apply double entry and fraudulently conceal fraud
  - C. A fraudulent transaction has double fraudulent effect
  - D. A fraudulent transaction has a single fraudulent effect on the account being concealed
- (1 mark)
55. Which one of the following is a cash flow activity from financing activities?
- A. Cash in from Investment dividends
  - B. Cash out for purchase of an asset
  - C. Cash from revenues
  - D. Cash from receivables
- (1 mark)
56. Which one of the following financial ratios can be used to measure an organisation's ability to meet its immediate financial obligations?
- A. Asset turnover ratio
  - B. Current liability ratio
  - C. Cost of sales ratio
  - D. Quick ratio
- (1 mark)
57. Which one of the following is the most common methods of misrepresenting financial statements in a public company?
- A. Overstating revenue and understating expenses
  - B. Understating revenue and overstating expenses
  - C. Overstating revenue and expenses
  - D. Understating revenue and expenses
- (1 mark)
58. Which one of the following transactions will result to understated liabilities?
- A. Omission of expenses
  - B. Omission of revenue
  - C. Recording prepaid expenses as expenses
  - D. Accrued expenses
- (1 mark)

59. Which one of the following transactions will **NOT** result to overstated receivables?
- A. Recognising long term revenue
  - B. Fictitious revenue
  - C. Writing off bad debts
  - D. Failure to write off bad debts
- (1 mark)
60. Which one of the following statements is **ACCURATE** in regard to recording of current liabilities?
- A. Failure to record current liabilities will understate the current ratio
  - B. Failure to record current liabilities will understate the profit
  - C. Failure to accrual expenses will understate the current liabilities
  - D. Failure to record current liabilities will inflate the current ratio
- (1 mark)
61. The management of Apple Ltd. wants to demonstrate to the board of directors and shareholders that the company's financial performance and position are doing well. Which of the following financial statement fraud schemes is management likely to engage in?
- A. Overstatement of revenue and concealment of expenditure
  - B. Improper disclosures
  - C. Improper asset valuation
  - D. Understated revenue and overstated expenditure
- (1 mark)
62. Which one of the following statements is **ACCURATE** in regard to forensic accounting?
- A. All forensic accounting engagements might end up in court
  - B. All forensic accounting engagements should be conducted only on sufficient suspicion of fraud
  - C. The scope of investigative forensic accounting must cover every misconducts discovered during the engagement
  - D. Forensic accounting engagement can be conducted for many purposes other than for investigative accounting
- (1 mark)
63. Which one of the following is **NOT** a characteristic of a fraud examiner?
- A. Patience
  - B. Partial
  - C. Impartial
  - D. Informal but firm
- (1 mark)
64. Bad debts are recorded in the\_\_\_\_\_.
- A. statement of financial statement
  - B. statement of profit and loss account
  - C. statement of cash flows
  - D. statement of owner's equity
- (1 mark)
65. Which one of the following is a statement of profit or loss item?
- A. Unpaid expenditure
  - B. Unearned revenue
  - C. Prepaid expenditure
  - D. Capital expenditure
- (1 mark)
66. Which one of the following statement is **ACCURATE** in regard to the introduction section of a forensic audit?
- A. The introduction section of a forensic audit report includes a summary of the findings
  - B. The introduction section of the forensic audit report includes all the terms of reference of the forensic audit
  - C. The introduction section of the forensic audit report includes the source of the allegation
  - D. The introduction section of the forensic audit report includes the scope of the investigation
- (1 mark)
67. Which one of the following statements is **ACCURATE** in regard to the scope section of a forensic audit?
- A. The scope of a forensic audit report includes, a summary of the findings
  - B. The scope section of the forensic audit report includes all the terms of reference of the forensic audit
  - C. The scope section of the forensic audit report includes all the allegations and the period of investigation
  - D. The scope section of the forensic audit report includes the specific allegations and the period of investigation
- (1 mark)

68. Which one of the following statements is **ACCURATE** in regard to the recommendation section of a forensic audit?
- A. The recommendation section of a forensic audit report includes the conclusion of the findings
  - B. The recommendation section of the forensic audit report includes the auditor's recommendation, to consider conducting, investigations on other areas of concern and the fraud related controls to be put in place
  - C. The recommendation section of the forensic audit report includes the forensic auditor's recommendations on what action should be taken against the suspect
  - D. The recommendation section of the forensic audit report includes the forensic auditor's opinion
- (1 mark)
69. Which one of the following statements is **ACCURATE** in regard to the essential skills and knowledge for conducting a forensic audit?
- A. Good knowledge and skills in basic rules of evidence
  - B. Good knowledge and skills in accounting
  - C. Good knowledge and skills in auditing
  - D. Good knowledge and skills in financial management
- (1 mark)
70. Which one of the following statements is **ACCURATE** in regard to IFRS and financial reporting?
- A. Strict adherence to IFRS would result to unfair representation of the financial performance of an organisation
  - B. Strict adherence to IFRS would result to understated performance of an organisation
  - C. Strict adherence to IFRS would result to fair representation of the financial performance and position of an organisation
  - D. There is no provision for departure from strict adherence to IFRS under any circumstances
- (1 mark)
71. Which one of the following statements is **ACCURATE** with regard to the statement of cash flows?
- A. The statement of cash flows read together, with the statement of profit and loss, can help to detect financial statement fraud related to financial performance
  - B. The statement of cash flows is necessary for those companies that use cash-basis accounting rather than accrual accounting
  - C. There are four types of cash flows; cash flows from operating activities, from investing activities, from financing activities and from payment activities
  - D. The statement of cash flows shows a company's financial performance during an accounting period
- (1 mark)
72. Which one of the following financial items should be recorded in the statement of profit or loss?
- A. Receivables
  - B. Current assets
  - C. Incurred expenses not paid
  - D. Capital expenditure
- (1 mark)
73. Those standards that require financial statements to include all material information that would affect the financial position of the organisation, at least in the next accounting period is referred as\_\_\_\_\_.
- A. materiality
  - B. comparability
  - C. adequate disclosures
  - D. inadequate disclosures
- (1 mark)
74. Which one of the following assignment can be conducted before the acquisition of a business, to establish the real financial performance and position of the organisation?
- A. A special financial statement audit
  - B. Forensic accounting
  - C. Forensic audit
  - D. Fraud audit
- (1 mark)
75. Which one of the following statements is **ACCURATE** in regard to Benford Law?
- A. Benford's Law can identify a pattern of anomalies
  - B. Benford's Law can only work with unnatural numbers
  - C. Benford's Law can work with both natural and unnatural numbers
  - D. Benford's Law is function incorporated in most data analysis tools
- (1 mark)



76. Which one of the following statements is **ACCURATE** in regard to changes in owners' equity?
- A. Changes in owners' equity can also be referred to statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of cash flows
  - C. Owners' equity acts as a link between the statement of financial position the statement of profit or loss and other comprehensive income and non-current liabilities
  - D. It shows the company's net worth (1 mark)
77. Which one of the following statements is **ACCURATE** in regard to statement of profit or loss?
- A. The statement of profit and loss amounts are carried forward to next financial year profit and loss account
  - B. The statement of profit and loss amounts are not carried forward to next financial year
  - C. The net profit is carried forward to the next financial year profit and loss account
  - D. The retained earnings are carried forward to the following accounting period (1 mark)
78. Which one of the following is the recommended basis for recording a piece of equipment, vehicle or building in the company's books of account?
- A. Historical cost
  - B. Sales value
  - C. Current market value
  - D. Valuation value (1 mark)
79. Which one of the following statements is **ACCURATE** in regard to gross profit?
- A. Gross profit is the difference between cost revenue and operating costs
  - B. Gross profit is equal to net revenue less cost of revenue
  - C. Gross profit is equal to revenue less operating expenses
  - D. Gross profit is equal to net revenue less cost of and operating cost (1 mark)
80. Which one of the following transaction would **NOT** help to conceal the removal of a liability?
- A. Increasing owners' equity
  - B. Increasing revenue
  - C. Adding an asset
  - D. Increasing a different liability (1 mark)
81. Which one of the following statement of cash flows category can help in measuring a company's financial performance?
- A. Operating activities
  - B. Investment and financing activities
  - C. Financing activities
  - D. Operating and financing activities (1 mark)
82. Which one of the following statements is **ACCURATE** in regard to disclosures?
- A. Disclosures are financial statements items
  - B. Disclosures are not financial statements items
  - C. Disclosures should not be part of financial reporting
  - D. Failure to include disclosures would not affect the financial statements (1 mark)
83. Which one of the following would fraudulently affect the profit of an organisation and therefore mislead decision makers in regard to the performance of the organisation?
- A. Failure to accrual expenses
  - B. Proper valuation of inventory
  - C. Adequate allowance for bad doubtful debts
  - D. Accrual of expenses (1 mark)
84. Which one of the following is **NOT** a Kenya Public sector type of financial statement disclosure?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. Owner's equity (1 mark)

85. Which one of the following statements is **NOT** accurate in regard to financial reporting in the Kenyan public sector?
- A. Kenya has not yet adopted accrual basis of accounting in the public sector
  - B. Unpaid bills in the public sector are reported as disclosures of pending bills
  - C. IPSAS financial reporting require that MDAs, accrual pending bills as expenses
  - D. IPSAS financial reporting require that MDAs use the cash basis of accounting (1 mark)
86. Which one of the following statements is **NOT** accurate in regard to International Financial Reporting Standards?
- A. IFRS provides guidance on revenue recognition to avoid overstatement of revenue
  - B. IFRS provides guidance on asset valuation to avoid overvaluation of assets
  - C. IFRS provides guidance on expenses recognition to avoid understatement of expenses
  - D. IFRS provides guidance on expenses recognition to avoid overstatement of expenses (1 mark)
87. Which one of the following statements is **ACCURATE** in regard to IPSAS and the external auditors 'initial concern'?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;
  - B. The entity's finance team must have advanced skills and experience in IPSAS and their applicability to the entity's financial statements
  - C. The entity has arrangements in place to produce financial statements, along with supporting working papers, to an acceptable timetable
  - D. Financial and other information systems are in place (1 mark)
88. Which one of the following terms is **NOT** one of the principles of fraud examiners code of ethics?
- A. Honesty
  - B. Integrity
  - C. Transparency
  - D. Partiality (1 mark)
89. Which of the following assignment can be conducted to proactively detect fraud in financial statement?
- A. A special financial statement audit
  - B. Forensic accounting
  - C. Forensic audit
  - D. Fraud audit (1 mark)
90. Which one of the following engagements can be conducted to prove or disapprove allegation of financial statement fraud?
- A. Special financial statement audit
  - B. Forensic accounting
  - C. Forensic audit
  - D. Fraud audit (1 mark)
91. The assumption that a business will continue at least in the next financial year is reflected in the International Accounting Standards (IAS) accounting concept of \_\_\_\_\_.
- A. Objective evidence
  - B. Comparability
  - C. Relevance
  - D. Going concern (1 mark)
92. Which of the following financial items should **NOT** be recorded in the statement of profit or loss?
- A. Revenue earned
  - B. Receivable and payables
  - C. Incurred expenses not paid
  - D. Cost of revenue (1 mark)
93. Which one of the following **BEST** describe statement of financial position?
- A. Statement of financial position shows an organisation net worth
  - B. Statement of financial position shows, an organisation financial performance
  - C. Statement of financial position shows sources of and application of funds
  - D. Statement of financial position shows an organisation net asset (1 mark)

94. Which one of the following **BEST** describe statement of cash flows?
- A. Statement of cash flow shows an organisation net worth
  - B. Statement of cash flow shows an organisation financial performance
  - C. Statement of cash flows shows sources and application of funds
  - D. Statement of cash flow shows an organisation liquidity
- (1 mark)
95. Which one of the following statements **ACCURATE** in regard to the difference between a forensic fraud auditor and a forensic accountant?
- A. The difference between a forensic fraud auditor and a forensic accountant, is that forensic auditor does not have to be an accountant
  - B. The difference between a forensic fraud auditor and a forensic accountant, is that forensic accountant is not required to have investigative skills
  - C. The difference between a forensic fraud auditor and a forensic accountant, is that forensic accountant is not required to have basic knowledge of law
  - D. The difference between a forensic fraud auditor and a forensic accountant is that forensic auditor is not required to have knowledge in fraud prevention
- (1 mark)
96. Which one of the following statements is **ACCURATE** in regard to fraud audit?
- A. Fraud audit is conducted to respond to assessed high fraud risk
  - B. Fraud audit is the same as fraud investigation engagement
  - C. Fraud audit is the same as a forensic audit engagement
  - D. Fraud audit is the same as a special audit engagement
- (1 mark)
97. Which one of the following financial statements would you find notes payable, current assets, retained earnings and accumulated depreciation?
- A. Statement of changes in owners' equity
  - B. Statement of financial position
  - C. Statement of cash flows
  - D. Statement of profit or loss and other comprehensive income
- (1 mark)
98. Which one of the following are elements of the statement of financial position?
- A. Current assets
  - B. Revenues
  - C. Cost of revenue
  - D. Expenses
- (1 mark)
99. Financial statements that are complete, neutral and free from error, refers to \_\_\_\_\_.
- A. comparability
  - B. consistency
  - C. faithful representation
  - D. accuracy
- (1 mark)
100. Which one of the following statements is **NOT** true regarding the statement of changes in owners' equity?
- A. It serves a similar purpose to the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. It lists the major company shareholders and the change in their ownership equity over the Financial year
- (1 mark)
- .....



**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 22 April 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. This paper is made up of one hundred (100) Multiple Choice Questions. Each question is allocated one (1) mark.**

1. Which one of the following statements is **NOT** accurate in regard to forensic fraud audit?
  - A. Forensic audit is basically an investigation assignment
  - B. The objective of a forensic audit is to collect evidence to prove an allegation
  - C. Forensic audit is an investigative audit to resolve allegations of fraud from inception to disposition
  - D. All the above(1 mark)
2. A forensic accountant must know the difference between the following documents, **EXCEPT** \_\_\_\_\_.
  - A. An audit and forensic audit report
  - B. Audit and factual evidence
  - C. Information and evidence
  - D. Forensic audit and investigation report(1 mark)
3. Forensic auditors must be knowledgeable in the following areas, **EXCEPT** \_\_\_\_\_.
  - A. Identification of fraudulent accounting transactions
  - B. Detection of fraud and corruption schemes
  - C. Ability to conduct investigations in all areas without technical assistance
  - D. Identification of red flags and fraud risks(1 mark)
4. Failure to apply the respective IFRS in recognising revenue, expenses, improper asset valuation would result in which one of the following consequences?
  - A. Misrepresentation of the financial position
  - B. Both misrepresentation of the financial performance and position
  - C. Misrepresentation of the financial position
  - D. Overstated current ratio(1 mark)
5. Which one of the following is an item shown in the company's statement of profit or loss and other comprehensive income?
  - A. Long term revenue
  - B. Capital expenditure
  - C. Revenue
  - D. Cost of goods(1 mark)
6. Which one of the following statements is **ACCURATE** in regard to the statement of financial position and statement of financial performance?
  - A. Current assets are generally presented before the non- current assets in the statement of financial position
  - B. Non- current assets are recorded in the statement of financial performance
  - C. The statement of owner's equity is recorded in the statement of financial performance
  - D. Current assets are generally presented first in order of maturity(1 mark)

7. Which one of the following statements is **ACCURATE** in regard to payables, receivables, liabilities, inventory, cash and bank?
- A. The above items are recorded in the balance sheet and are used to calculate the quick ratio to measure an organisation's liquidity
  - B. A current ratio that is too favorable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be deflated by overstated and understated receivables and payables respectively
  - D. All the above
- (1 mark)
8. Fraudsters can balance an accounting equation by fraudulently debiting any account. Which one of the following actions would **NOT** balance the accounting equation?
- A. Reducing an asset
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. All the above
- (1 mark)
9. Which one of the following entries would help to conceal misappropriation of funds?
- A. Increasing revenue
  - B. Reducing an expense
  - C. Reducing payables
  - D. All the above
- (1 mark)
10. Making a credit entry in any account would help to conceal an asset misappropriation. Which one of the following entries in the following accounts can help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Increasing an asset
  - C. Increasing revenue
  - D. All the above
- (1 mark)
11. Peter runs a medium construction company. He got a contract to be performed over a period of five years. Peter signed a contract for the full contract amount with the client. By the end of Year 2 the company had performed and delivered only one third of the contract. Peter recorded the whole contract revenue amount in December of Year 2.
- Which one of the following statements is **NOT** accurate in regard to the recording of the revenue?
- A. The revenue was recorded in accordance with the IFRS standard for recognising revenue
  - B. The transaction overstated the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences
  - D. All of the above
- (1 mark)
12. ABC company recorded substantial profits in the statement of profit and loss. The statement of cash flow recorded negative balances from the operating activities. Which one of the following activities could have taken place?
- A. Understated revenue
  - B. Overstated revenue
  - C. Overstated payables
  - D. Overstated non- current assets
- (1 mark)
13. Which one of the following is **NOT** accurate in regard to the accounting model?
- A.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the balance sheet
  - D. All the above
- (1 mark)
14. Which one of the following statements is **ACCURATE** in regard to concealment of cash embezzlement be used to balance the accounting equation to conceal cash misappropriation?
- A. Reducing revenue can conceal cash embezzlement
  - B. Increasing a liability can conceal cash embezzlement
  - C. Reducing an expense can conceal cash embezzlement
  - D. All the above can conceal cash embezzlement
- (1 mark)

15. The statement of cash flows from operations activity often used together with the statement of profit or loss to determine which of the following?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance
  - B. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's liquidity
  - C. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's net worth
  - D. None of the above
- (1 mark)
16. Which one of the following financial elements is recorded on the statement of financial position of an organisation?
- A. Revenue
  - B. Expenses
  - C. Gross profit
  - D. Current liabilities
- (1 mark)
17. Which one of the following fraudulent financial transaction would affect the statement of financial position?
- A. Fictitious revenue
  - B. Overstated cost of goods
  - C. Accrual of expenses
  - D. All the above
- (1 mark)
18. If a company is a victim of fraud. Which one of the following exercises should it conduct to respond to the fraud to prove or disapprove allegations?
- A. An in-depth audit
  - B. Forensic audit
  - C. Fraud audit
  - D. Special audit
- (1 mark)
19. Which one of the following statements is **NOT** true regarding the statement of changes in owners' equity?
- A. It is similar to the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. It shows the entity's financial position and performance
- (1 mark)
20. Direct expenses for generating revenue should be recorded the same financial period. Failure to record accordingly would result into which of the following?
- A. Inflated gross profit
  - B. Overstated revenue
  - C. Understated net profit
  - D. None of the above
- (1 mark)
21. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at \_\_\_\_\_.
- A. Valuation value
  - B. Cost less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. All the above
- (1 mark)
22. Which one of the following statements is **NOT** accurate with regard to net profit?
- A. Net profit is recorded in the statement of profit and loss
  - B. Net profit is equal to gross profit less operating expenses
  - C. Net profit is equal to revenue less cost of revenue
  - D. All the above
- (1 mark)

23. A fraudster wanted to conceal the removal of a liability from the books. Which one of the following actions would **NOT** balance the accounting equation?
- A. Increasing owners' equity
  - B. Decreasing an expense
  - C. Decreasing an asset
  - D. Decreasing a liability
- (1 mark)
24. The ability of an organisation to continue at least in next financial year is reflected in the international accounting standards (IAS) accounting concept of \_\_\_\_\_.
- A. Consistency
  - B. Comparability
  - C. Going concern
  - D. All the above
- (1 mark)
25. Which one of the following activities is **NOT** a category of the statement of cash flow item?
- A. Operating activities
  - B. Investment activities
  - C. Strategic activities
  - D. Financing activities
- (1 mark)
26. Expenses and revenue are required to be recorded in the same financial period. Which one of the following terms refers to this concept?
- A. Comparability
  - B. Going concern
  - C. Materiality
  - D. Matching principles
- (1 mark)
27. Recognising revenue for work that will be performed in the next financial year would affect which of the following financial items?
- A. Revenue will be understated
  - B. Receivables will be overstated
  - C. Current ratio will be understated
  - D. All the above
- (1 mark)
28. Which one of the following statements is **CORRECT** in regard to IFRS in regard to financial statements?
- A. IFRS enhance transparency, comparability and trust in the global financial sector
  - B. IFRS helps to increase the net worth and cash flows in the statement of financial position
  - C. IFRS financial reporting standards are mandatory for financial reporting in all jurisdictions
  - D. None of the above
- (1 mark)
29. Which one of the following statements is **NOT** accurate in regard to the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance
  - B. The statement of cash flows reports a company's assets and uses of cash during the accounting period
  - C. There are three types of cash flows activities; cash flows from operating activities, investments activities and financing activities
  - D. All the above
- (1 mark)
30. IFRS require that organisations disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year and any other important information that the users of the financial statement would need to know.
- Which one of the following phrases explains failure to disclose the information indicated above?
- A. Limited disclosure
  - B. Inadequate disclosure
  - C. Accounting fraud
  - D. Related party transactions
- (1 mark)

31. Financial ratios can be used to detect improper recognition of revenue. Which one of the following ratios can be used to detect the misrepresentation?
- A. Asset turnover ratio
  - B. Non-current ratio
  - C. Receivables turnover ratio
  - D. Inventory turnover ratio
- (1 mark)

32. The accounting standards require that government institution to include progress on auditor's recommendations, pending bills note and analysis and IFMIS generated reports among others. Which one of the following statements is **NOT** correct in regard to failure to include the above reports?
- A. There is evidence of financial statement fraud
  - B. There is a high risk of financial statement fraud
  - C. There is a high risk of asset misappropriation
  - D. All the above
- (1 mark)

33. It is now a requirement under IPSAS to include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements.

Which one of the following statements is **NOT** accurate in regard to a scenario where the note and analysis on pending bills in the financial statement and the pending bills listing do not tally?

- A. There is a red flag of overstated pending bills
  - B. There is a red flag of concealment of actuals versus budget
  - C. There is red flag of cash misappropriation
  - D. All the above
- (1 mark)

34. When planning an audit of an entity's financial statements under IPSAS, which one of the following statements is **NOT** a major concern of the external auditors?

- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. That the entity's finance team are all certified accountants
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's Financial Statements
- (1 mark)

35. Forensic accountants and auditors are expected to observe the following code of ethics, **EXCEPT** \_\_\_\_\_.

- A. Confidentiality, commitment, diligence and lawfulness
  - B. Integrity, independence and objectivity
  - C. Responsibility to the profession
  - D. Lack of professional development
- (1 mark)

36. Which one of the following statements is **CORRECT** in regard to internal controls environment in regard to accounting?

- A. Internal controls do not protect company assets
  - B. There is an accounting standard for internal controls
  - C. Internal controls help in managing fraud risks
  - D. All the above
- (1 mark)

37. Audits are now required to be risk-based audit. Which one of the following statements **BEST** describes risk based audit?

- A. The auditor should prioritise the audit according to the level of the risk, that is, high to medium approach
  - B. The auditor should have advanced knowledge in risk management.
  - C. To detect fraud in high-risk areas, the auditor uses tests and procedures that are used in routine audits
  - D. The auditor should be knowledgeable in fraud risk identification, assessment and investigations of fraud risks
- (1 mark)

38. Which one of the following terms can be used interchangeably with fraud examinations?

- A. Forensic fraud audit
  - B. Proactive forensic audit
  - C. Fraud audit
  - D. All the above
- (1 mark)



39. Forensic investors do not necessarily have to be accountants, however, they must be knowledgeable in the following areas, **EXCEPT** \_\_\_\_\_.
- A. Advanced financial reporting
  - B. Identification of fraudulent financial transactions
  - C. Financial statement fraud schemes
  - D. Basic accounting concepts
- (1 mark)
40. Failure to apply the respective IFRS in recognising revenue, improper deferral of costs and expenses, improper asset valuations and inadequate disclosure could result to the following consequences, **EXCEPT** \_\_\_\_\_.
- A. Misrepresentation of the statement of financial position
  - B. Faithful presentation of the financial performance
  - C. Allegations of fraudulent financial reporting
  - D. All the above
- (1 mark)
41. Which one of the following is the **BEST** description of what is shown on a company's statement of profit or loss and other comprehensive income?
- A. The company's financial position at the end of the financial year
  - B. The changes in the total owners' equity amount listed on the statement of financial position
  - C. The company's profit (or loss) during the financial year
  - D. The company's sources and uses of cash during a particular period of time
- (1 mark)
42. Which one of the following statements is **ACCURATE** in regard to the statement of financial position?
- A. Non-current assets are generally presented on the statement of financial position in order of maturity
  - B. Statements of financial position is usually manipulated by overstating assets and understating liabilities
  - C. Revenues and expenses accounts are recorded in statement of cash flow
  - D. All the above
- (1 mark)
43. Expenses, revenue, retained earnings and tax payments are recorded in which of the following financial statement?
- A. Statement of changes in owners' equity
  - B. Statement of profit and loss
  - C. Statement of cash flows
  - D. Statement of profit or loss and other comprehensive income
- (1 mark)
44. If a fraudster wanted to conceal the misappropriation of cash. Which one of the following actions would **NOT** result in a balanced accounting equation?
- A. Reducing owners' equity
  - B. Creating an expense
  - C. Decreasing a liability
  - D. Reducing an expense
- (1 mark)
45. If a fraudster wanted to conceal the misappropriation of cash, which one of the following actions would help to conceal an asset misappropriation?
- A. Decreasing an asset
  - B. Decreasing an expense
  - C. Decreasing a liability
  - D. All the above
- (1 mark)
46. Making a debit entry in any account would help to conceal an asset misappropriation. Which one of the following entries in the following accounts **CANNOT** help to conceal an asset misappropriation?
- A. Increasing payables
  - B. Increasing an asset
  - C. Increasing an expense
  - D. None of the above
- (1 mark)

47. Jones runs an IT company. He uses accrual basis of accounting. In December of Year 1, Jonathan signed a contract with a client. The client paid the full amount of the contract in December of Year 1 though the work was to be performed the following year. Jonathan recorded the contract revenue in December of Year 1.
- Which one of the following is **NOT** accurate about the recording of that financial transaction?
- A. The revenue should be recorded in December when Jones received the cash
  - B. Both the revenue and expenses should be recorded in the next financial year
  - C. This transaction will misrepresent the revenue earned during that financial year
  - D. All the above
- (1 mark)
48. XYZ company recorded substantial profits. The statement of cash flows recorded negative balances from the operating activities.
- Which one of the following actions is **NOT** a red flag of financial statement fraud?
- A. Fictitious revenue scheme
  - B. Skimming of receivables
  - C. Overstated payables
  - D. All the above
- (1 mark)
49. Which one of the following is the **CORRECT** accounting model?
- A.  $\text{Assets} + \text{Liabilities} = \text{Owners' Equity}$
  - B.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - C.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - D. None of the above
- (1 mark)
50. Which one of the following choices can help conceal cash misappropriation by balancing the accounting equation?
- A. Increasing revenue
  - B. Increasing a liability
  - C. Reducing an expenditure
  - D. Creating an asset
- (1 mark)
51. Which one of the following statements is **ACCURATE** with regard to the statement of cash flows?
- A. The statement of cash flows helps to measure the efficiency of cash management of an organisation
  - B. The statement of cash flows is necessary for those companies that use cash-basis accounting rather than accrual accounting
  - C. There are four types of cash flows: cash flows from operating activities, from investing activities, from financing activities and from payment activities
  - D. The statement of cash flows shows a company's financial performance and position at the end of a given period
- (1 mark)
52. Which one of the following items appears on the statement of profit and loss?
- A. Receivables
  - B. Current assets
  - C. Expenditure
  - D. Capital expenditure
- (1 mark)
53. Sue, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a case of alleged financial statement fraud. As part of her expert testimony, Sue explained the requirements under the International Financial Reporting Standards. Those standards require that the financial statements should include all material information that would affect the financial performance or position of the organisation, at least in the next financial year.
- This requirement is referred to as \_\_\_\_\_.
- A. Relevance
  - B. Comparability
  - C. Adequate disclosures
  - D. Inadequate disclosures
- (1 mark)

54. A major company in the fintech industry wants to purchase another company. It would be advisable that the acquiring company conduct which of the following assignments before the acquisition, to establish the real financial performance and position of the organisation?
- An independent audit
  - Forensic accounting
  - Fraud investigation
  - Fraud audit
- (1 mark)
55. The Benford's Law can be useful in detecting fraudulent financial transactions. Which one of the following statements is **CORRECT** in regard to Benford's Law?
- Benford's Law cannot help to identify red flags of fraud
  - Benford's Law can only work with natural numbers
  - Benford's Law can work with both natural and unnatural numbers
  - Benford's Law is function incorporated in most data analysis tools
- (1 mark)
56. Which one of the following statements is **CORRECT** in regard to the statement of changes in owners' equity?
- Changes in owners' equity is similar to the statement of retained earnings
  - It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of cash flows
  - Owners' equity acts as a link between the statement of financial position, the statement of profit or loss and other comprehensive income and non-current liabilities
  - It shows the company's major liabilities over the financial year
- (1 mark)
57. Revenue and cost of generating revenue should be recorded in the same accounting period. This accounting principle is called \_\_\_\_\_.
- Corresponding principle
  - Double entry principle
  - Comparability principle
  - Matching principle
- (1 mark)
58. Under the IAS 16, the proper basis for recording a piece of equipment, vehicle or building on a company's books is at \_\_\_\_\_.
- Historical cost or revaluation amount less accumulated depreciation
  - Sales value less accumulated depreciation
  - Current market value less accumulated depreciation
  - Revaluation value less costs to sell
- (1 mark)
59. Which one of the following statements is **CORRECT** with regard to gross margin?
- Gross margin is the difference between cost of sales and operating costs
  - Gross margin is equal to net sales less cost of goods sold
  - Gross margin is equal to revenue less operating expenses
  - Gross margin is equal to net sales less cost of and operating cost
- (1 mark)
60. To conceal the removal of a liability from the books, which of the following actions would **NOT** balance the accounting equation and therefore not conceal the fraud?
- Increasing owners' equity
  - Increasing revenue
  - Increasing an asset
  - Increasing a different liability
- (1 mark)
61. Which one of the following activities is **NOT** an important a category of the statement of cash flows in measuring a company's financial performance?
- Operating activities
  - Investment and financing activities
  - Financing activites
  - All the above
- (1 mark)
62. Which one of the following statements is **NOT** accurate in regard to improper disclosures?
- Disclosures amounts are financial statements items
  - Disclosures amounts are not financial statements items
  - Disclosures should be part of financial reporting
  - Failure to include disclosures would fraudulently affect the financial reporting
- (1 mark)

63. Which one of the following actions would fraudulently affect the current ratio and therefore misleading decision makers?
- A. Ommision of expenses
  - B. Proper valuation of inventory
  - C. Adequate provision for bad doubtful debts
  - D. Accrual of expenses
- (1 mark)
64. Under IPSAS, MDAs financial statements should **NOT** include which one of the following disclosures?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. Statement of profit and loss
- (1 mark)
65. Which one of the following statements is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS for financial reporting
  - B. Kenya has adopted IPSAS for financial reporting for MDAs
  - C. IPSAS financial reporting require that MDAs uses the accrual basis of accounting
  - D. All the above
- (1 mark)
66. International Financial Reporting Standards (IFRS) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance on several reporting areas.
- Which one of the following is **NOT** one of those reporting areas?
- A. Revenue recognition
  - B. Asset valuation
  - C. Disclosures
  - D. Liabilities recognition
- (1 mark)
67. When planning an audit of an entity's financial statements under IPSAS, which one of the following statements is **NOT** true about the external auditors 'initial concern?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. The entity's finance team must have advanced skills and experience in IPSAS and their applicability to the entity's financial statements
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. All the above
- (1 mark)
68. According to the Association of certified Fraud Examiners the code of conduct for fraud examiners is based on several principles.
- Which one of the following principles is **NOT** one of them?
- A. Confidentiality
  - B. Integrity and objectivity
  - C. Independence
  - D. Partiality
- (1 mark)
69. Which one of the following statements is a type of financial statement fraud?
- A. Failure to recognise unearned revenue
  - B. Providing adequate provision for bad and doubtful debts
  - C. Improper valuation of current assets
  - D. All the above
- (1 mark)
70. Which one of the following actions is **NOT** a type of financial statement fraud?
- A. Improper asset valuations
  - B. Accrual of expenses
  - C. Capitalisation of expenditure
  - D. Inadequate disclosures
- (1 mark)

71. Procurement fraud is a high risk in almost every organisation. Which one of the following exercises should an auditor perform when auditing the procurement function?
- A. Forensic audit
  - B. Fraud audit
  - C. Value for money audit
  - D. Fraud investigation
- (1 mark)
72. Which one of the following assignments would **NOT** require a forensic accountant?
- A. Fraud detection audit
  - B. Calculation in lawsuits
  - C. Business valuation
  - D. Business
- (1 mark)
73. ABC Limited seeks to invite potential investors into the company. The management inflated the financial performance of the company. Which one of the following types of financial statement fraud scheme did management likely engage in?
- A. Improper assets valuation
  - B. Concealment of expenditure
  - C. Improper disclosure
  - D. All the above
- (1 mark)
74. Which one of the following statements is **NOT** correct in regard to recording of fictitious sales?
- A. Fictitious sales will result in overstated receivables
  - B. Fictitious sales will result in inflated profits
  - C. Fictitious sales will result in deflated current ratio
  - D. Fictitious sales will result in inflated current ratio
- (1 mark)
75. Which one of the following choices is **NOT** a root causes of financial statements fraud?
- A. Rationalisation
  - B. Social pressure
  - C. Low perception of detection
  - D. Opportunity
- (1 mark)
76. Cost of goods sold and corresponding sales should be recorded in the same accounting period. This accounting principle is called \_\_\_\_\_.
- A. Measuring concept
  - B. Double entry principle
  - C. Corresponding principle
  - D. Matching principle
- (1 mark)
77. Which one of the following statements of cash flows activities is a type of cash flows from operating activities?
- A. Investment dividends
  - B. Share capital
  - C. Cash from sale of an asset
  - D. Cash from receivables
- (1 mark)
78. Which one of the following financial ratios can be used to measure an organisation's ability to meet its immediate daily financial operations?
- A. Quick ratio
  - B. Asset turnover ratio
  - C. Current liability ratio
  - D. Cost of sales ratio
- (1 mark)
79. Which one of the following statements is **NOT** accurate regarding the statement of financial position?
- A. Liabilities are generally presented on the statement of financial position in order of maturity
  - B. Statements of financial position is usually manipulated by understating assets and overstating liabilities
  - C. The statement of financial position shows the net worth of a company at a given financial reporting date
  - D. Revenues and goodwill accounts are recorded in statement of financial comprehensive income
- (1 mark)

80. Which one of the following statements is the most common type of financial statements fraud?
- A. Overstated revenue and understated expenditure
  - B. Overstated liabilities and expenses
  - C. Understated payables
  - D. Understated non-current assets
- (1 mark)
81. Which one of the following statements is **NOT** correct in regard to recording of payables?
- A. Failure to record payables would inflate the current ratio
  - B. Failure to record payables would inflate the profit
  - C. Failure to accrual expenses would deflate the current ratio
  - D. All the above
- (1 mark)
82. Which one of the following statements is **NOT** accurate in regard to forensic audit?
- A. The assumption is that the forensic audit might end up in court
  - B. The forensic audit should be conducted only on sufficient suspicion
  - C. The scope of a forensic audit must cover all misconducts discovered during the investigation
  - D. The results of a forensic audit can be used for many purposes including recovery of lost resources
- (1 mark)
83. Which one of the following characteristics is **NOT** associated with a good forensic auditor?
- A. Fair and firm
  - B. Partial
  - C. People's person
  - D. Patience
- (1 mark)
84. Which one of the following statements is **NOT** accurate in regard to forensic audit reports?
- A. The conclusion of a forensic audit report includes a summary of the findings
  - B. The introduction section of the forensic audit report includes all the terms of reference of the forensic audit
  - C. The introduction section of the forensic audit report includes, what prompted the investigations and the objective of the forensic audit
  - D. The conclusion section of the forensic audit report includes a recommendation of the next course of action
- (1 mark)
85. Which one of the following statements is **NOT** accurate in regard to forensic auditors?
- A. A well trained and experienced accountant/auditor cannot conduct effective forensic audits
  - B. A well trained and experienced accountant/auditor can also conduct effective forensic audits
  - C. A forensic auditor must have good knowledge of law related to fraud and rules of evidence
  - D. All the above
- (1 mark)
86. Which of the following statements is **CORRECT** in regard to IFRS and financial reporting?
- A. Strict adherence to IFRS would result to unfair representation of the financial performance of an organisation
  - B. Strict adherence to IFRS would result in an understated performance of an organisation
  - C. Strict adherence to IFRS would result in fair representation of the financial performance and position of an organisation
  - D. All the above
- (1 mark)
87. Which one of the following terms is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Payables
  - B. Bad debts
  - C. Expenditure
  - D. Depreciation
- (1 mark)
88. Which one of the following terms is **NOT** an item shown in the statement of owners' equity?
- A. Expenditure
  - B. Net income
  - C. None of the above
  - D. Retained earnings
- (1 mark)

89. Which one of the following essential skills is **NOT** necessary for a forensic accountant?
- A. Investigative skills
  - B. Accounting skills
  - C. Good report writing skills
  - D. Technical skills in all areas
- (1 mark)
90. XYZ Limited seeks to invite potential investors into the company. The management inflated the financial position of the company. Which one of the following types of financial statement fraud scheme did management likely engage in?
- A. Concealment of liabilities
  - B. Overstatement of expenditure
  - C. Improper disclosure
  - D. All the above
- (1 mark)
91. In which of the following scenarios would one hire a forensic accountant?
- A. Business valuation
  - B. To prove and determine guilt or innocence of a suspect through investigation report and evidence
  - C. Assist in conducting an interview of a suspect
  - D. All of the above
- (1 mark)
92. Which one of the following statements is **CORRECT** in regard to statement of financial position?
- A. It shows profit before tax but after expenses
  - B. Loans payable are presented as current and non-current liabilities
  - C. Revaluation surplus is shown in current assets
  - D. Statement of changes in equity excludes share premium
- (1 mark)
93. Which one of the following statements is **CORRECT** in regards to Journal entries?
- A. Journal entries include both adjusting and re-classifying entries
  - B. increase inventory, liabilities and revenue accounts
  - C. Journal entries can be used to adjust errors but not estimates in ledger accounts
  - D. Journal entries are part of complete set of financial statements
- (1 mark)
94. Jameni is a forensic accountant investigating financial statement fraud involving revenues. He noted that one of the vehicles brand on promotion was sold with a one-year free service after date of service. If a customer does not turn up for the service, within the year, the free service is forfeited. The promotion was running from August 2023 to October 2023. In his investigation, he discovered that the invoiced values of the cars were booked as revenues for the year 2023 since all were raised within the same year. The company financial reporting year end is 31<sup>st</sup> December 2023.
- Which one of the following statements is **CORRECT** in regards to accounting for revenue in accordance to IFRS 15?
- A. The invoiced amounts should be allocated to performance obligations before recognising revenue
  - B. Revenue should be prorated over the one-year period on equal
  - C. Instalments
  - D. Revenue should be recognised after the end of the free service
- (1 mark)
95. Which one of the following is a complete set of financial statements?
- A. Statement of cash flows, statement of changes in revenues, statement of finance position, statement of retained earnings, statement of expenses
  - B. Statement of cash flows, statement of changes in equity, statement of financial position, notes and statement of income
  - C. Statement of cash flows, statement of changes in equity, statement of financial position, notes and statement of expenses
  - D. Statement of cash flows, statement of changes in liabilities, statement of finance position, notes and statement of income
- (1 mark)

96. Which one of the following statements can be used together with the statement of profit or loss to evaluate a company's true financial performance in regards to profitability and liquidity?
- A. Statement of cash flows
  - B. The statement of financial position
  - C. Statement of retained earnings
  - D. Profit or loss statement
- (1 mark)
97. Which one of the following statements is **CORRECT** with regard to the statement of cash flows?
- A. If a company shows large profits in its income statement but generate positive cash flows from operations and negative investing activities is not a red flag of management fraud
  - B. A statement of cash flows is not part of financial statements
  - C. Cash flows used in loan repayments are not part of financing activities
  - D. All the above
- (1 mark)
98. The statement of changes in equity acts as a summary of which one of the following?
- A. Statement of owners balances as at the end of the reporting year
  - B. Statement of financial position and statement of cash flows
  - C. Statement of cash flows and the statement of retained earnings
  - D. Statement of cash flows, the statement of financial position and statement of operating activities
- (1 mark)
99. The statement of cash flows in its cash flows from operating activities would include \_\_\_\_\_.
- A. Changes in trade receivables, depreciation adjustment and changes in inventory
  - B. Cash flows from tax expense
  - C. Receipts from sale of non-current assets
  - D. Loans repayment
- (1 mark)
100. If an accountant detects manipulation of the bank statement, where two presented Cheques of shillings one hundred thousand and two hundred thousand respectively are listed as unpresented cheques, which one of the following terms explain this scenario?
- A. Risk of fraud
  - B. Fair presentation
  - C. Materiality
  - D. Comparability and consistency
- (1 mark)
- .....





**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 4 December 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct Answer. This paper is made up of one hundred (100) Multiple Choice Questions. Each question is allocated one (1) mark.**

1. In addition to accounting skills and knowledge, a forensic accountant must have good knowledge of which of the following areas **EXCEPT**?
  - A. Writing a forensic report
  - B. Testifying in court as an expert witness
  - C. Basic principles of evidence
  - D. None of the above(1 mark)
2. Forensic auditors do not necessarily have to be accountants. However, they must be knowledgeable in the following **EXCEPT**?
  - A. Identification of red flags and risks of fraud
  - B. Detection of fraud and corruption schemes
  - C. Advanced knowledge in financial reporting standards in both the private and public sector
  - D. None of the above(1 mark)
3. Departure from the respective IFRS in recognising revenue, costs and expenses, proper asset valuation and inadequate disclosure would result in which one of the following?
  - A. Fair representation of the financial position and performance of the entity
  - B. Misrepresentation of both the financial performance and position of the entity
  - C. Reliable opinion in relation to the going concern
  - D. None of the above(1 mark)
4. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
  - A. Revenue earned
  - B. Expenses incurred
  - C. Liabilities
  - D. Cost of revenue(1 mark)
5. Which of the following statements is **NOT** accurate in regard to the statement of financial position?
  - A. Current assets are generally presented in order of liquidity on the statement of financial position
  - B. Non- current assets are recorded first in the statement of financial position
  - C. The statement of owner's equity is recorded in the statement of financial position
  - D. None of the above(1 mark)
6. Which of the following is **NOT** accurate in regard to payables, receivables, liabilities, inventory, cash and bank?
  - A. The above items are recorded in the statement of financial position and are used to calculate the current ratio to measure an organisation's profit
  - B. A current ratio that is too favourable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be affected by overstated and understated receivables and payables respectively
  - D. None of the above(1 mark)

7. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which of the following actions would balance the accounting equation?
- A. Reducing an expense
  - B. Increasing an expense
  - C. Increasing a liability
  - D. Reducing an asset
- (1 mark)

8. If a fraudster wanted to conceal misappropriation of cash, which of the following actions would help to conceal an asset misappropriation?
- A. Reducing revenue
  - B. Reducing an expense
  - C. Reducing an asset
  - D. None of the above
- (1 mark)

9. Making a debit entry in any account would help to conceal an asset misappropriation, after making a credit entry in the misappropriated account.

Which of the following entries in the following accounts can help to conceal an asset misappropriation?

- A. Increasing a liability
  - B. Reducing an expense
  - C. Increasing revenue
  - D. None of the above
- (1 mark)

10. Janet runs a medium construction company. She got a contract to be performed over a period of five years. Janet signed a contract for the full contract amount with the client. By the end of Year 2 the company had performed and delivered only one fifth of the contract. Janet recorded the whole contract revenue amount in December of Year 2.

Which one of the following is **NOT** true about the recording of that financial transaction?

- A. The transaction understated the revenue earned during that financial year
  - B. The transaction overstated the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences
  - D. All of the above
- (1 mark)

11. Which of the following is **ACCURATE** in regard to the accounting model?

- A.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - B.  $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - C. The accounting model is presented in the statement of profit or loss
  - D. None of the above
- (1 mark)

12. Which of the following **CANNOT** be used to balance the accounting equation to conceal cash misappropriation?

- A. Reducing revenue
  - B. Increasing a liability
  - C. Increasing an expense
  - D. None of the above
- (1 mark)

13. The statement of cash flows is often used together with the statement of profit or loss and other comprehensive income to determine which of the following?

- A. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's true financial position
  - B. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's liquidity
  - C. The statement of cash flows is often read together with the statement of profit or loss and other comprehensive income to determine a company's performance
  - D. None of the above
- (1 mark)

14. Which of the following appears on the statement of financial position of an organisation?

- A. Owner equity
  - B. Expenses
  - C. Gross profit
  - D. None of the above
- (1 mark)

15. Joe, a Certified Forensic Fraud Examiner was hired to serve as an accounting expert witness in a trial of alleged financial statement fraud. As part of his expert testimony, Joe explained the requirements under International Financial Reporting Standards related to recording of receivables. Those standards require that the receivables be recognised at a fair value. During the investigation, Joe found that some of the overdue receivable accounts with substantial amounts were created from fictitious invoices and were still held in the receivables accounts and therefore were part of the end of year balance sheet items.

Which of the following financial reporting would **NOT** be fraudulently affected by the above transaction?

- A. The receivables
- B. The current ratio
- C. Net profit
- D. None of the above

(1 mark)

16. XYZ company received an anonymous tip alerting the company that there is a lot of fraud and corruption going on in the company, especially in their procurement and finance department. The person receiving the tips is knowledgeable in fraud issues and confirmed the allegation to be reliable. He also analysed available information in relation to the anonymous tip and found that there was sufficient suspicion of fraudulent activity. The company has an Anti-Fraud Policy which requires the company to effectively respond to fraud allegations.

Under the circumstances, which of the following assignment should the company conduct?

- A. Forensic accounting
- B. Forensic audit
- C. Fraud audit
- D. Surprise audit

(1 mark)

17. Which of the following statements is **ACCURATE** regarding the statement of changes in owners' equity?

- A. It is not the same as the statement of retained earnings
- B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial performance
- C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
- D. None of the above

(1 mark)

18. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result in which of the following?

- A. Overstated expenses
- B. Overstated revenue
- C. Understated net profit
- D. None of the above

(1 mark)

19. Which of the following statements is **ACCURATE** with regard to net profit?

- A. Net profit is recorded in the statement of financial performance
- B. Net profit is equal to gross profit less cost of goods
- C. Gross margin is equal to revenue less cost of goods
- D. None of the above

(1 mark)

20. To conceal the removal of a liability from the books, which of the following actions would balance the accounting equation?

- A. Reducing owners' equity
- B. Decreasing an expense
- C. Increasing an asset
- D. All the above

(1 mark)

21. The assumption that a business will continue at least in the next financial year is reflected in the international accounting standards (IAS) accounting concept of \_\_\_\_\_.

- A. Consistency
- B. Continuity
- C. Going concern
- D. None of the above

(1 mark)

22. Which of the following is **NOT** a category of the statement of cash flow?
- A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. None of the above
- (1 mark)
23. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?
- A. Double entry principle
  - B. Accrual principle
  - C. Materiality principle
  - D. None of the above
- (1 mark)
24. Under IFRS 15, recognising revenue for work that is to be performed in subsequent accounting periods, even though the work has already been contracted.

Which of the following is **ACCURATE** in relation to recognising revenue for work that is to be performed during the following financial year?

- A. Revenue will be overstated
  - B. Receivables will be overstated
  - C. Current ratio will be inflated
  - D. None of the above
- (1 mark)
25. Which of the following is **ACCURATE** in regard to IFRS in regard to financial reporting?
- A. IFRS enhance transparency, comparability and trust in the global financial sector
  - B. IFRS helps to increase the net worth and cash flows in the statement of financial position
  - C. IFRS financial reporting standards are mandatory for financial reporting in all jurisdictions
  - D. IAS generally replace IFRS
- (1 mark)
26. Which of the following statement is **ACCURATE** in regard to the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial position
  - B. The statement of cash flows reports a company's assets and uses of cash during the accounting period
  - C. There are three types of cash flows activities; cash flows from operating activities, investing activities and revenue activities
  - D. None of the above
- (1 mark)
27. IFRS require that organisations disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year, and any other important information that the users of the financial statement would need to know. ABC and XYZ companies are controlled by the same directors. The directors of both companies did not disclose the ownership/control relationship between the two companies.

Which of the following financial statement fraud was perpetrated by the company's directors?

- A. Financial statement fraud
  - B. Inadequate disclosure
  - C. Accounting fraud
  - D. Related party transactions fraud
- (1 mark)
28. Which of the following financial ratios can be used to detect fictitious revenues and receivables?
- A. Asset turnover ratio
  - B. Non-current ratio
  - C. Receivables turnover ratio
  - D. None of the above
- (1 mark)
29. Under IPSAS, MDAs financial statements should include progress on auditor's recommendations, pending bills note and analysis and IFMIS generated reports among others. Which of the following is **NOT** accurate in regard to failure to include the above reports?
- A. There is red flag of financial statement fraud
  - B. There is a high risk of financial statement fraud
  - C. There is a high risk of asset misappropriation
  - D. None of the above
- (1 mark)

30. Which of the following is **ACCURATE** in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and public sectors respectively
  - B. SMEs are not required to use IFRS standards for SMEs because they do not have public accountability
  - C. Nairobi Securities Exchange does not require companies trading in securities to use IFRS
  - D. None of the above
- (1 mark)
31. International Financial Reporting Standards (IFRS) provide financial reporting guidelines to prevent misrepresentation of financial statements. Which of following areas of reporting is **NOT** one of them?
- A. Fair value measurement
  - B. Revenue recognition
  - C. Assets measurement
  - D. None of the above
- (1 mark)
32. IPSAS require that ministries include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements.
- Which of the following is **NOT** true about a scenario where the note and analysis on pending bills in the financial statements and the pending bills listing differ?
- A. There is a red flag of concealed pending bills
  - B. There is a red flag of concealment of actuals versus budget
  - C. There is red flag of cash misappropriation
  - D. None of the above
- (1 mark)
33. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** one of the major concerns of the external auditors?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. That the entity's finance team are all qualified accountants
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's financial statements
- (1 mark)
34. Certified Fraud Examiners are guided by code of ethics. In the same way, forensic accountants and auditors are expected to observe the following code of ethics **EXCEPT**?
- A. Confidentiality, commitment, diligence and lawfulness
  - B. Integrity, independence and objectivity
  - C. Responsibility to the profession
  - D. None of the above
- (1 mark)
35. Which of the following statements is **NOT** true about risk-based audit?
- A. The auditor should prioritise the audit according to the level of the risk. That is, high to low approach
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and response to fraud risks
  - C. To detect fraud in high-risk areas, the auditor uses tests and procedures specifically designed to detect fraud
  - D. None of the above
- (1 mark)
36. Which of the following terminologies **CANNOT** be used interchangeably with fraud investigations?
- A. Forensic fraud audit
  - B. Fraud examination
  - C. Fraud audit
  - D. Forensic accounting
- (1 mark)
37. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in the following areas **EXCEPT**?
- A. Advanced management accounts
  - B. Identification of fraudulent financial transactions
  - C. Financial statement fraud schemes
  - D. None of the above
- (1 mark)

38. Failure to apply the respective IFRS in recognising revenue, improper deferral of costs and expenses, improper asset valuations and inadequate disclosure could result all of the following **EXCEPT**?
- A. Misrepresentation of the statement of financial position
  - B. Misrepresentation of the financial performance
  - C. Claims of fraudulent financial reporting
  - D. None of the above
- (1 mark)
39. Blue Corp. has always used the first-in, first-out (FIFO) inventory valuation method when calculating its cost of goods sold. This is industry standard for inventory valuation method for Blue Corp. If management used another method that will result to reduced cost of goods.
- Which of the following does **NOT** describes the outcome of this inventory valuation method.
- A. The gross profit margin would be overstated
  - B. The net income would be overstated
  - C. The closing stock would be overstated
  - D. None of the above
- (1 mark)
40. Which of the following is the **BEST** description of what is shown on a company's statement of profit or loss and other comprehensive income?
- A. The company's financial position at a specific point in time
  - B. The changes in the total owners' equity amount listed on the statement of financial position
  - C. How much profit (or loss) the company earned over a particular period of time
  - D. The company's sources and uses of cash during a particular period of time
- (1 mark)
41. Which of the following statements is **ACCURATE** in regard to the statement of financial position?
- A. Non-current assets are generally presented on the statement of financial position in order of maturity
  - B. Statements of financial position is usually manipulated by understating assets and overstating liabilities
  - C. The statement of financial position shows the net worth of a company at a given financial reporting date
  - D. Revenues and expenses accounts are recorded in statement of financial performance
- (1 mark)
42. Payables, receivables, retained earnings and deferred tax are recorded in which of the following financial statement?
- A. Statement of changes in owners' equity
  - B. Statement of financial position
  - C. Statement of cash flows
  - D. None of the above
- (1 mark)
43. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would **NOT** result in a balanced accounting equation?
- A. Reducing owners' equity
  - B. Reducing an expense
  - C. Decreasing a liability
  - D. Increasing an asset
- (1 mark)
44. Which of the following actions would **NOT** help to conceal an asset misappropriation?
- A. Increase an asset
  - B. Creating an expense
  - C. Decreasing a liability
  - D. None of the above
- (1 mark)
45. Making a debit entry in any account would help to conceal an asset misappropriation. Which of the following entries in the following accounts **CANNOT** help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Increasing an asset
  - C. Increasing an expense
  - D. None of the above
- (1 mark)
46. Jonah runs an IT company. He uses accrual basis of accounting. In December of Year 1, Jonah signed a contract with a client. The client paid the full amount of the contract in December of Year 1 though the work was to be performed the following year. Jonah recorded the contract revenue in December of Year 1.

- Which one of the following is statement is **ACCURATE** in regard to recording of that financial transaction?
- A. The revenue should be recorded in December when Jonathan received the cash, and the expenses should be recorded the following year when the work is performed
  - B. Both the revenue and expenses should be recorded in December
  - C. This transaction will not misrepresent the revenue earned during that financial year
  - D. None of the above
- (1 mark)
47. Red Corp recorded substantial profit in the profit and loss account. The statement of cash flows recorded negative balances from the operating activities.
- Which of the following is **NOT** a red flag of financial statement fraud?
- A. Recording of fictitious revenue
  - B. Skimming of receivables
  - C. Overstated revenue
  - D. None of the above
- (1 mark)
48. Which of the following is the correct accounting model?
- A.  $\text{Assets} + \text{Liabilities} = \text{Owners' Equity}$
  - B.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - C.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - D. None of the above
- (1 mark)
49. Which of the following can help conceal cash misappropriation by balancing the accounting equation?
- A. Increasing revenue
  - B. Increasing a liability
  - C. Reducing an expenditure
  - D. None of the above
- (1 mark)
50. Which of the following statements is **TRUE** with regard to the statement of cash flows?
- A. The statement of cash flows is not always necessary because most companies operate under cash-basis accounting rather than accrual accounting
  - B. There are four types of cash flows: cash flows from operating activities, from investing activities, from financing activities and from payment activities
  - C. The statement of cash flows shows a company's financial performance and position at the end of a given period
  - D. None of the above
- (1 mark)
51. Which of the following appears on the statement of profit and loss?
- A. Current liabilities
  - B. Deferred tax
  - C. Liabilities
  - D. None of the above
- (1 mark)
52. Steve, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a case of alleged financial statement fraud. As part of her expert testimony, Steve explained the requirements under International Financial Reporting Standards. Those standards require that the financial statements should be complete, neutral, and free from fraud or error. This concept is related to which of the following?
- A. Relevance
  - B. Comparability
  - C. Faithful representation
  - D. Consistency
- (1 mark)
53. A major company in the construction industry wants to purchase another company. It would be advisable that the acquiring company conduct which of the following assignments before the acquisition to establish the real financial performance and position of the organisation?
- A. Forensic accounting
  - B. Forensic audit
  - C. Fraud investigation
  - D. All the above
- (1 mark)

54. The Benford's Law can be useful in detecting fraudulent financial transactions. Which of the following statements is **NOT** true in regard to Benford's Law?
- A. Benford's Law can be help to identify patterns that indicative of fraud
  - B. Benford's Law can only work with natural numbers
  - C. Benford's Law can work with both natural and unnatural numbers
  - D. None of the above
- (1 mark)
55. Which of the following statements is **ACCURATE** regarding the statement of changes in owners' equity?
- A. Changes in owners' equity is similar in certain circumstance to the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of cash flows
  - C. Owners' equity acts as a link between the statement of financial position, the statement of profit or loss and other comprehensive income and non-current liabilities
  - D. It shows the company's major liabilities over the financial year
- (1 mark)
56. As a sale is made, the appropriate charges for cost of goods sold or other expenses directly corresponding to the sale should be recorded in the same accounting period. This accounting principle is called \_\_\_\_\_.
- A. Consistency principle
  - B. Double entry principle
  - C. Comparability principle
  - D. None of the above
- (1 mark)
57. Under the IAS 16, the proper basis for recording a piece of equipment, vehicle or building on a company's books is at \_\_\_\_\_.
- A. Historical cost or revaluation amount less accumulated depreciation
  - B. Sales value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. Revaluation value less costs to sell
- (1 mark)
58. Which of the following statements is **TRUE** with regard to gross margin?
- A. Gross margin is the difference between cost of sales and operating costs
  - B. Gross margin is equal to net sales less cost of goods sold
  - C. Gross margin is equal to revenue less operating expenses
  - D. None of the above
- (1 mark)
59. To conceal the removal of a liability from the books, which of the following actions would **NOT** balance the accounting equation and therefore not conceal the fraud?
- A. Increasing owners' equity
  - B. Increasing revenue
  - C. Increasing an expenditure
  - D. Increasing a different liability
- (1 mark)
60. The assumption that a business will continue at least in the next financial year is reflected in the accounting concept of \_\_\_\_\_.
- A. Profitability
  - B. Comparability
  - C. Liquidity
  - D. None of the above
- (1 mark)
61. Which of the following is the most important category of the statement of cash flows in measuring a company's financial performance?
- A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. All the above
- (1 mark)
62. Which of the following statement is **ACCURATE** in regard to improper disclosures?
- A. Disclosures amounts are financial statements items
  - B. Disclosures amounts are not financial statements items
  - C. Disclosures should not be part of financial reporting
  - D. Failure to include disclosures would not fraudulently affect the financial reporting
- (1 mark)



63. Which of the following would fraudulently affect the current ratio and therefore misleading decision makers?
- Accrual of expenses
  - Proper valuation of inventory
  - Failure to write off bad debts
  - None of the above
- (1 mark)
64. Under IPSAS, MDAs financial statements should **NOT** include which one of the following disclosures?
- Progress on auditor's recommendations
  - Pending bills note and analysis
  - IFMIS generated reports
  - None of the above
- (1 mark)
65. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- Kenya has adopted IFRS for financial reporting
  - Kenya has adopted IPSAS for financial reporting for MDAs
  - IPSAS financial reporting require that MDAs uses the accrual basis of accounting
  - None of the above
- (1 mark)
66. International Financial Reporting Standards (IFRS) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance on several reporting areas.
- Which of the following is **NOT** one of those reporting areas?
- Revenue recognition
  - Asset valuation
  - Disclosures
  - None of the above
- (1 mark)
67. When planning an audit of an entity's financial statement under IPSAS, which of the following is **NOT** true about the external auditor's initial concern?
- Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - The entity's finance team have advanced knowledge and understanding of IPSAS and their applicability to the entity's financial statements
  - The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers to an acceptable timetable
  - None of the above
- (1 mark)
68. According to the Association of certified Fraud Examiners, the code of conduct for fraud examiners is basically based on several principles. Which of the following is **NOT** one of those principles?
- Competence
  - Objectivity
  - Continuous learning
  - None of the above
- (1 mark)
69. Which of the following is **NOT** a financial statement fraud scheme?
- Recognising long term contract revenue in the first year of performance
  - Inadequate allowance for bad and doubtful debts
  - Capitalising expenditure
  - Accruing expenses
- (1 mark)
70. Which of the following is **NOT** a financial statement fraud scheme?
- Adequate disclosures
  - Concealed expenditure
  - Capitalisation of expenditure
  - None of the above
- (1 mark)
71. Procurement fraud is a high risk in the public sector. Which of the following exercise should auditors perform when auditing procurement for purposes of evaluating economy, efficiency and effectiveness?
- Special audits
  - Fraud audit
  - Surprise audit
  - None of the above
- (1 mark)

72. Which of the following assignments would **NOT** require a forensic accountant?
- Calculation in lawsuits
  - Business valuation
  - Business combination
  - None of the above
- (1 mark)
73. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at which of the following?
- Revaluation value less cost to sell
  - Sales value less accumulated depreciation
  - Cost value less depreciation
  - None of the above
- (1 mark)
74. Rainbow Limited directors are planning to sell the company. The management and board of directors when preparing the financial statements, deliberately failed to write off a substantial number of bad debts.
- What type of financial statement fraud was management perpetrating?
- Improper liabilities valuation
  - Improper current assets valuations
  - Improper non-current asset valuation
  - Improper assets net adjustment
- (1 mark)
75. Which of the following statements is **NOT** accurate in regard to recording of fictitious sales?
- Fictitious sales will result in overstated receivables
  - Fictitious sales will result in inflated profits
  - Fictitious sales will result in overstated current ratio
  - None of the above
- (1 mark)
76. Which of the following is **NOT** a root causes of financial statements fraud?
- Weak controls
  - Situational pressure
  - Inadequate oversight by the board
  - None of the above
- (1 mark)
77. Cost of revenue and corresponding revenue should be recorded in the same accounting period. This accounting principle is called?
- Accounting principle
  - Double entry principle
  - Materiality principle
  - None of the above
- (1 mark)
78. Which of the following is an item of statement of cash flows activities from operating activities?
- Investment dividends
  - Share capital
  - Cash from a loan
  - None of the above
- (1 mark)
79. Which of the following financial ratio can be used to measure an organisation's ability to meet its immediate financial obligations?
- Current ratio
  - Quick ratio
  - Receivable turnover ratio
  - Liquidity ratio
- (1 mark)
80. Which of the following is **NOT** accurate in regard to financial reporting in Kenya?
- Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and public sector respectively
  - Nairobi Securities Exchange require companies trading in the Securities exchange with public accountability to use IFRS
  - Public sector is also required to use IFRS in financial reporting
  - None of the above
- (1 mark)

81. Which of the following statements is **NOT** accurate regarding the statement of financial position?
- A. Liabilities are generally presented on the statement of financial position in order of maturity
  - B. Statements of financial position is usually manipulated by overstating assets and understating liabilities
  - C. The statement of financial position shows the net worth of a company at a given financial year
  - D. None of the above
- (1 mark)
82. Which of the following is the most common financial statements fraud scheme?
- A. Overstated income and understated expenses
  - B. Overstated liabilities and expenses
  - C. Understated working capital
  - D. Understated current assets
- (1 mark)
83. Which of the following is **ACCURATE** in regard to recording of current liabilities?
- A. Failure to record payables would inflate the current ratio
  - B. Failure to record payables would understate the profit
  - C. Failure to accrual expenses would overstate the current liabilities
  - D. None of the above
- (1 mark)
84. Which of the following statements is **NOT** accurate in regard to forensic audit?
- A. The forensic auditor should assume that a forensic audit will end up in litigation
  - B. The forensic audit should be conducted only on sufficient predication
  - C. The scope of a forensic audit should be wide enough to uncover all the fraudulent evidence
  - D. None of the above
- (1 mark)
85. Which of the following is **NOT** a characteristic of a good forensic auditor?
- A. A friendly person
  - B. Patient
  - C. Very formal in all his/her dealings
  - D. None of the above
- (1 mark)
86. Which of the following is **NOT** accurate in regard to forensic audit and audit reports?
- A. The conclusion of an audit report is to express an opinion
  - B. The conclusion of a forensic audit report is a summary of the findings
  - C. Conclusion and recommendations in a forensic report are the same and the terms can be used interchangeably
  - D. None of the above
- (1 mark)
87. Which of the following is **NOT** accurate in regard to a forensic auditor?
- A. A forensic auditor should have good knowledge of rules of evidence
  - B. A forensic auditor should have good knowledge of laws related to fraud
  - C. A forensic auditor should have good interviewing skills
  - D. None of the above
- (1 mark)
88. Which of the following is **NOT** accurate in regard to IFRS?
- A. Disclosures in financial statements is one of the IFRS
  - B. IFRS's leave room for interpretation
  - C. IFRS's does not require lengthy disclosures on financial statement
  - D. All the above
- (1 mark)
89. Which of the following is **NOT** accurate in regard to IFRS and financial reporting?
- A. Strict adherence to IFRS would result in fair recognition of revenue
  - B. Strict adherence to IFRS would result in an understated performance of an organisation
  - C. Strict adherence to IFRS would result in fair representation of the financial position of an organisation
  - D. None of the above
- (1 mark)
90. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Revenue
  - B. Bad debts
  - C. Expenditure
  - D. Capital expenditure
- (1 mark)

91. Which of the following is **NOT** an item shown in the statement of owners' equity?
- A. Current liabilities
  - B. Revenue
  - C. Current Assets
  - D. None of the above
- (1 mark)
92. Which of the following is an item of statement of cash flows activities from investment activities?
- A. Dividends
  - B. Sale of public shares
  - C. Cash from sale of an asset
  - D. None of the above
- (1 mark)
93. Which of the following is **ACCURATE** in regard to forensic audit and fraud investigation?
- A. Forensic audit and fraud investigation are both investigation engagements
  - B. The objective of a forensic audit and an investigation is to collect evidence to prove an allegation
  - C. Forensic audit or investigation is a methodology of resolving fraud issues from inception to disposition
  - D. None of the above
- (1 mark)
94. Which of the following is an item of statement of cash flows activities from financing activities?
- A. Revenue
  - B. Funds from a loan
  - C. Cash from sale of an asset
  - D. None of the above
- (1 mark)
95. Which of the following statements is **NOT** accurate in regard to unpaid expenditure?
- A. Unpaid expenditure are financial statements items
  - B. Unpaid expenditure are not financial statements items
  - C. Unpaid expenditure are items of statement of profit and loss
  - D. None of the above
- (1 mark)
96. Which of the following statement is **ACCURATE** in regard to related party's transaction?
- A. Related party's transactions are not disclosure items
  - B. All related party's transactions are fraudulent
  - C. Not all related party's transactions are fraudulent
  - D. None of the above
- (1 mark)
97. Which of the following financial statement fraud involves recording expense as assets?
- A. Capitalising expenses
  - B. Omission of expenses
  - C. Overstating of assets
  - D. None of the above
- (1 mark)
98. Which of the following financial statement fraud involves failure to record incurred expenses?
- A. Understatement of expenses
  - B. Overstatement of expenses
  - C. Overstating of assets
  - D. None of the above
- (1 mark)
99. Which of the following financial statement fraud involves recording revenue that has not been earned?
- A. Overstatement of revenue
  - B. Understatement of revenue
  - C. Understatement of receivables
  - D. None of the above
- (1 mark)
100. Which of the following financial statement fraud involves failure to write off dead inventory?
- A. Capitalising expenses
  - B. Improper asset valuation
  - C. Overstating of assets
  - D. None of the above
- (1 mark)
- .....



**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 21 August 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. This paper is made up of one hundred (100) Multiple Choice Questions. Each question is allocated one (1) mark.**

1. Which of the following statements is **NOT** accurate in regard to forensic audit?
  - A. Forensic audit should be prompted by sufficient predication
  - B. The objective of a forensic audit is to collect evidence to prove an allegation
  - C. Forensic audit is a methodology of resolving allegations of fraud from inception to disposition
  - D. None of the above(1 mark)
2. In addition to auditing skills, a forensic auditor must know the difference between which of the following **EXCEPT**?
  - A. An audit report and forensic audit report
  - B. Audit evidence and factual evidence
  - C. Information and evidence
  - D. None of the above(1 mark)
3. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in which of the following **EXCEPT**?
  - A. Identification of red flags and risks of fraud
  - B. Identification and detection of fraud and corruption schemes
  - C. Basic Knowledge in financial reporting standards in both the private and public sector
  - D. None of the above(1 mark)
4. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
  - A. Earned revenue
  - B. Customers' deposits
  - C. Cost of revenue
  - D. None of the above(1 mark)
5. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
  - A. Prepaid revenue
  - B. Earned revenue
  - C. Incurred expenses
  - D. None of the above(1 mark)
6. Which of the following statements is **NOT** accurate in regard to the statement of financial position?
  - A. Current assets are generally presented first in order of liquidity on the statement of financial position
  - B. Liabilities are recorded in the statement of financial position in order of maturity
  - C. The statement of owner's equity is recorded in the statement of financial position
  - D. Current assets are generally presented first in order of maturity on the statement of financial position(1 mark)

7. Which of the following statements is **NOT** accurate in regard to forensic audit?  
A. The assumption of a forensic audit is that it might end up in litigation  
B. The forensic audit should be conducted only on sufficient predication  
C. The scope of a forensic audit should be wide enough to uncover as much information as possible  
D. None of the above (1 mark)
8. Which of the following is **NOT** a characteristic of a good fraud examiner?  
A. Patience  
B. Compassionate  
C. Formal  
D. None of the above (1 mark)
9. Which of the following is **NOT** correct in regard to forensic audit and audit reports?  
A. The conclusion of an audit report is an opinion  
B. The conclusion of a forensic audit report is a summary of the findings  
C. The conclusion of a forensic audit report is recommendation on how to resolve fraud issues  
D. None of the above (1 mark)
10. Which of the following is **ACCURATE** about Forensic audit?  
A. An accountant/auditor has the necessary skills and knowledge to conduct forensic audit  
B. Forensic audit is basically an investigation  
C. Forensic audit is a special audit  
D. All the above (1 mark)
11. Which of the following is **ACCURATE** in regard to IFRS?  
A. Disclosures in financial statements is one of the IFRS requirements  
B. IFRS's does not leave room for interpretation  
C. IFRS's does not require lengthy disclosures on financial statement  
D. None of the above (1 mark)
12. Which of the following is **ACCURATE** in regard to IFRS and financial reporting?  
A. Strict adherence to IFRS would result in fair representation of the financial performance of an organisation  
B. Strict adherence to IFRS would result in an understated performance of an organisation  
C. Strict adherence to IFRS would result in misrepresentation of the financial position of an organisation  
D. None of the above (1 mark)
13. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?  
A. Revenue  
B. Bad debts  
C. Expenditure  
D. Liabilities (1 mark)
14. Which of the following statements is **ACCURATE** in regard to statement of financial position?  
A. The statement of financial position shows the financial performance of a company over a financial year  
B. The accounts that appear on the balance sheet include revenues and expenses  
C. Assets are generally presented on the balance sheet in order of value  
D. None of the above (1 mark)
15. Which of the following statement is **CORRECT** in regard to justification for a departure from International Financial Reporting Standards (IFRS)?  
A. Departing from IFRS would make the company appear more profitable  
B. Compliance with IFRS is too costly than using an alternative method  
C. The literal application of IFRS would result in misleading financial statements  
D. None of the above (1 mark)
16. Which of the following statements is **ACCURATE** in regard to gross profit?  
A. Gross profit is the same as net profit  
B. Gross profit is equal to revenues minus operating expenses  
C. Gross profit is equal to net sales less cost of goods sold  
D. All the above (1 mark)

17. Notes payable, current assets, retained earnings and accumulated depreciation are recorded in which of the following financial statements?  
 A. Statement of profit and loss  
 B. Statement of changes in owners' equity  
 C. Statement of cash flows  
 D. None of the above (1 mark)
18. Which of the following types of accounts are increased by debits?  
 A. Owners' equity  
 B. Revenue  
 C. Liabilities  
 D. None of the above (1 mark)
19. The statement of changes in owners' equity acts as the connecting link between which two financial statements?  
 A. Statement of financial position and statement of retained earnings  
 B. Statement of profit and loss and statement of financial position  
 C. Income statement and statement of cash flows  
 D. Statement of cash flows and balance sheet (1 mark)
20. Julie runs a printing company and has a printing press that she uses in her business. She purchased the press from a friend for Sh.700,000. The current market price for the same type of press is Sh.900,000. The press was valued at Sh. 800,000. Which of the following is the correct amount that should be recorded in the books of asset account?  
 A. Sh.700,00  
 B. Sh.900,000  
 C. Sh.800,000  
 D. None of the above (1 mark)
21. Which of the following could be used to balance the accounting equation to conceal cash stolen?  
 A. Increasing another asset  
 B. Increasing a liability  
 C. Increasing revenue  
 D. All of the above (1 mark)
22. Carey runs a food service company. He uses the accrual basis of accounting. In December of Year 1, a customer placed an order with him to cater for wedding party that would take place in February of Year 2. The contract was signed and the balance was paid in full when the order was placed in December. When should Carey recognise the revenue from this party and the associated expenses?  
 A. Both the revenue and expenses should be recorded in December  
 B. It does not matter because it is up to Carey to decide whether he reports the revenue and expenses in December or February  
 C. The revenue should be recorded in December when Carey received the cash, and the expenses should be recorded in February after the party takes place  
 D. Both the revenue and expenses should be recorded in February (1 mark)
23. Which of the following term **BEST** describe gross profit less operating expenses?  
 A. Gross revenues  
 B. Net sales  
 C. Cost of goods sold  
 D. None of the above (1 mark)
24. Which of the following is the **CORRECT** accounting model?  
 A. Assets = Liabilities – Owners' Equity  
 B. Assets = Liabilities + Capital  
 C. Assets + Liabilities = Owners' Equity  
 D. None of the above (1 mark)
25. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?  
 A. Consistency  
 B. Comparability  
 C. Faithful representation  
 D. None of the above (1 mark)

26. If a fraudster wants to conceal the misappropriation of cash, which of the following entries will **NOT** result in a balanced accounting equation?
- A. Creating an expense
  - B. Decreasing an expense
  - C. Decreasing a liability
  - D. Reducing owners' equity
- (1 mark)
27. Which of the following does **NOT** appear on the statement of profit or loss?
- A. Expenses
  - B. Revenues
  - C. Non-current assets
  - D. None of the above
- (1 mark)
28. Which of the following types of accounts are increased by credits?
- A. Expenses
  - B. Assets
  - C. Owners' equity
  - D. All of the above
- (1 mark)
29. Which of the following is **NOT** accurate regarding cash-basis accounting?
- A. Expenses are recorded in the accounting system when they are paid
  - B. Cash-basis accounting is easier to use than accrual-basis accounting
  - C. Revenues are recorded in the accounting system when the company receives cash
  - D. None of the above
- (1 mark)
30. Bravo Osoro, a Certified Fraud Examiner (CFE), was hired to serve as an expert accounting witness in a case of alleged financial statement fraud. As part of his expert testimony, Bravo explained that, under International Financial Reporting Standards (IFRS), management must ensure that the company's financial statements are complete, neutral, and free from error. Which of the following **BEST** describe this concept?
- A. Faithful representation
  - B. Going concern
  - C. Comparability
  - D. None of the above
- (1 mark)
31. Which of the following statements is **ACCURATE** in regard to the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the income statement to determine a company's true financial position
  - B. The statement of cash flows is not always necessary because most companies operate under cash-basis accounting rather than accrual-basis accounting
  - C. There are four types of cash flows: cash flows from operating activities, from investing activities, from financing activities and from expenditure activities
  - D. None of the above
- (1 mark)
32. Which of the following term **BEST** describe the concept that a business will continue at least in the next financial year?
- A. Matching principle
  - B. Net worth
  - C. Relevance
  - D. None of the above
- (1 mark)
33. Which of the following statements is **NOT** correct regarding the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the income statement to determine a company's true financial performance
  - B. The statement of cash flows reports a company's sources and uses of cash during the accounting period
  - C. There are three types of cash flows: cash flows from operating activities, from investing activities and from financing activities
  - D. The statement of cash flows shows a company's financial position at a specific point in time
- (1 mark)
34. Which of the following item is presented first on the statement of profit or loss?
- A. Sales
  - B. Net profit
  - C. Operating expenses
  - D. Net sales
- (1 mark)



35. The details of how much profit a company earned over a particular period of time is shown in which of the following statements?  
A. Balance sheet  
B. Statement of changes in owners' equity  
C. Statement of cash flows  
D. None of the above (1 mark)
36. Which of the following is the proper basis for initially recording a piece of equipment on a company's books?  
A. Selling value  
B. Current market value  
C. Valuation Value  
D. None of the above (1 mark)
37. Which of the following statements is **NOT** accurate in regard to current ratio?  
A. A current ratio that is too favourable is a sign of good financial performance  
B. A current ratio that is too favourable is a red flag of either overstated receivables, inventories or understated current liabilities or both  
C. A current ratio can fraudulently be affected by overstated and understated receivables and payables respectively  
D. None of the above (1 mark)
38. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which of the following entries would balance the accounting equation?  
A. Reducing an expense  
B. Increasing a liability  
C. Reducing an asset  
D. None of the above (1 mark)
39. If a fraudster wanted to conceal misappropriation of cash, which of the following actions would help to conceal an asset misappropriation?  
A. Increasing revenue  
B. Reducing an expense  
C. Increasing an asset  
D. None of the above (1 mark)
40. Rashid runs a construction company. He got a contract to be performed over a period of three years. Rashid signed a contract for the full contract amount with the client. By the end of Year 2 the company had performed and delivered only one third of the contract. Rashid recorded the whole contract revenue amount in December of Year 2. Which one of the following is **NOT** accurate in regard to recording of that financial transaction?  
A. The revenue was recorded in accordance with the IFRS standard for recognising revenue  
B. The transaction overstated the revenue earned during that financial year  
C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences  
D. All of the above (1 mark)
41. Tembo Ltd. recorded substantial profits in the statement of profit or loss. The statement of cash flow recorded negative balances from the operating activities. Which of the following fraud scheme could have been perpetrated?  
A. Theft of cash  
B. Fictitious revenue scheme  
C. Overstated expenses  
D. All the above (1 mark)
42. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine which of the following?  
A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial position  
B. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's financial performance  
C. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's net worth  
D. None of the above (1 mark)

43. Which of the following appears on the statement of financial position of an organisation?
- Liabilities
  - Expenses
  - Gross profit
  - None of the above
- (1 mark)
44. Able, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a trial of alleged financial statement fraud. As part of his expert testimony, Able explained the requirements under International Financial Reporting Standards related to receivables. Those standards require that the receivables be recognised at a fair value. During the investigation, Able found that some of the overdue receivable accounts with substantial amounts were created from fictitious revenue and were still held in the receivables accounts and therefore were part of the end of year balance sheet items. Which of the following financial reporting would be fraudulently affected by the above scenario?
- The receivables will be understated
  - The current ratio will be understated
  - Current ratio will be inflated
  - All the above
- (1 mark)
45. XYZ motor company received an anonymous tip alerting the company that there is a lot of fraud and corruption going on in the company, especially in their procurement and finance department. The person receiving the tips is knowledgeable in fraud issues and confirmed the allegation to be reliable. He also analysed available information in relation to the anonymous tip and found that there was sufficient suspicion of fraudulent activity. The company has an anti-fraud policy which requires the company to effectively respond to fraud allegations. Under the circumstances, which of the following assignment should the company **NOT** conduct?
- Forensic investigation
  - Forensic audit
  - Forensic accounting
  - Fraud examination
- (1 mark)
46. Which of the following statements is **NOT** accurate in regard to statement of changes in owners' equity?
- It is similar to the statement of retained earnings
  - It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position
  - It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - None of the above
- (1 mark)
47. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result in which of the following?
- Overstated expenses
  - Overstated revenue
  - Overstated gross profit
  - None of the above
- (1 mark)
48. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at \_\_\_\_\_.
- Revaluation value
  - Cost value less accumulated depreciation
  - Current market value less accumulated depreciation
  - None of the above
- (1 mark)
49. Which of the following statements is **NOT** accurate with regard to net profit?
- Net profit is recorded in the statement of financial position
  - Net profit is equal to gross profit less operating expense
  - Net profit flows to the statement of financial performance through the owner's equity statement
  - None of the above
- (1 mark)
50. A fraudster wanted to conceal the removal of a liability from the books, which of the following actions would balance the accounting equation?
- Increasing owners' equity
  - Decreasing an expense
  - Decreasing an asset
  - All the above
- (1 mark)

51. Which of the following is a component of cash flow activity related to financing activity?
- A. Cash in from revenue
  - B. Cash out from expenses
  - C. Cash in from a loan
  - D. None of the above
- (1 mark)
52. Which of the following is **NOT** a category of the statement of cash flow?
- A. Operating activities
  - B. Investment activities
  - C. Revenue activities
  - D. All the above
- (1 mark)
53. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?
- A. Comparability
  - B. Going concern
  - C. Matching principle
  - D. None of the above
- (1 mark)
54. Which of the following statements is **ACCURATE** in relation to recognising revenue for work that is to be performed in the subsequent financial year?
- A. Revenue will be understated
  - B. Receivables will be understated
  - C. Current ratio will be inflated
  - D. None of the above
- (1 mark)
55. Which of the following statement is **CORRECT** in regard to IFRS and financial reporting?
- A. IFRS helps to increase the net worth and cash flows in the statement of financial position
  - B. IFRS are mandatory for financial reporting in all jurisdictions
  - C. IAS generally replace IFRS
  - D. None of the above
- (1 mark)
56. Which of the following statements is **CORRECT** in regard to statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's revenue growth
  - B. The statement of cash flows reports a company's sources and application of cash during an accounting period
  - C. There are three types of cash flows activities; cash flows from operating activities, investing activities and expenditure activities
  - D. None of the above
- (1 mark)
57. IFRS require that organisations disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year, and any other important information that the users of the financial statement would need to know. ABC and XYZ companies are controlled by the same directors. The directors of both companies did not disclose the ownership/control relationship between the two companies. Which of the following financial statement fraud was perpetrated by the company's directors?
- A. Financial statement fraud
  - B. Inadequate disclosure
  - C. Accounting fraud
  - D. Related party transactions fraud
- (1 mark)
58. Which of the following financial ratios **CAN** be used to detect fictitious revenues and receivables?
- A. Asset turnover ratio
  - B. Non-current ratio
  - C. Inventory turnover ratio
  - D. None of the above
- (1 mark)
59. Under IPSAS, MDAs financial statements should include progress on auditor's recommendations, pending bills note and analysis and IFMIS generated reports among others. Which of the following is **NOT** correct in regard to failure to include the above reports?

- A. There is red flag of financial statement fraud  
 B. There is a high risk of financial statement fraud  
 C. There is a high risk of asset misappropriation  
 D. None of the above (1 mark)
60. Which of the following is **NOT** true in regard to financial reporting in Kenya?  
 A. Kenya has adopted IFRS and IPSAS for financial reporting in the private and public sectors respectively  
 B. SMEs are required to use IFRS for SMEs even though they do not have public accountability  
 C. Nairobi Securities Exchange requires companies trading in securities to use IFRS  
 D. None of the above (1 mark)
61. International Financial Reporting Standards (IFRS) provide financial reporting guidelines to prevent misrepresentation of financial statements. Which of following areas of reporting is **NOT** one of them?  
 A. Fair value measurement  
 B. Revenue recognition  
 C. Assets measurement  
 D. None of the above (1 mark)
62. IPSAS require that ministries include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements. Which of the following is **NOT** correct about a scenario where the note and analysis on pending bills in the financial statements and the pending bills listing differ.  
 A. There is a red flag of concealed pending bills  
 B. There is a red flag of concealment of actuals versus budget  
 C. There is red flag of cash misappropriation  
 D. None of the above (1 mark)
63. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** one of the major concerns of the external auditors?  
 A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems  
 B. The entity has arrangements in place to produce reliable financial statements along with adequate supporting working papers, to an acceptable timetable  
 C. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's Financial Statements  
 D. None of the above (1 mark)
64. Certified Fraud Examiners are guided by code of ethics. In the same way, forensic accountants and auditors are expected to observe. Which of the following is **NOT** a component code of ethics?  
 A. Confidentiality, commitment, diligence and lawfulness  
 B. Integrity, independence and objectivity  
 C. Responsibility to the profession  
 D. None the above (1 mark)
65. Which of the following statements is **NOT** correct about risk-based audit?  
 A. The auditor should prioritise the audit according to the level of the risk, that is, high to low approach  
 B. The auditor should be knowledgeable in fraud risk identification, assessment and response to fraud risks  
 C. To detect fraud in high-risk areas, the auditor uses tests and procedures specifically designed to detect fraud  
 D. None of the above (1 mark)
66. Which of the following terminologies **CANNOT** be used interchangeably with fraud investigations?  
 A. Forensic fraud audit  
 B. Fraud examination  
 C. Fraud audit  
 D. Forensic accounting (1 mark)
67. Fraud examiners do not necessarily have to be accountants; however, they must be knowledgeable in the following areas **EXCEPT**?  
 A. Advanced financial reporting  
 B. Identification of fraudulent financial transactions  
 C. Financial statement fraud schemes  
 D. All the above (1 mark)

68. Failure to apply the respective IFRS in recognising revenue, improper deferral of costs and expenses, improper asset valuations and inadequate disclosure could result to the following **EXCEPT**?
- A. Misrepresentation of the statement of financial position
  - B. Misrepresentation of the financial performance
  - C. Claims of fraudulent financial reporting
  - D. None of the above
- (1 mark)
69. ABC Ltd. has always used the first-in, first-out (FIFO) inventory valuation method when calculating its cost of goods sold. This is industry standard for inventory valuation method for ABC Ltd. If management used another method that will result to reduced cost of goods. Which of the following **BEST** describes the outcome of this inventory valuation method?
- A. The gross profit margin would be overstated
  - B. The gross profit would be understated
  - C. The closing stock would be understated
  - D. All the above
- (1 mark)
70. Which of the following statements is **NOT** accurate regarding the statement of financial position?
- A. Current assets are generally presented on the statement of financial position in order of liquidity.
  - B. Statements of financial position is usually manipulated by overstating assets and understating liabilities.
  - C. The statement of financial position shows the financial performance of an organisation in a financial year
  - D. Revenues and expenses accounts are recorded in statement of financial performance
- (1 mark)
71. Inventory, receivables, retained earnings and deferred tax are recorded in which of the following financial statement?
- A. Statement of changes in owners' equity
  - B. Statement of cash flows
  - C. Statement of profit or loss and other comprehensive income
  - D. None of the above
- (1 mark)
72. A debit entry in any account would help to conceal an asset misappropriation. Which of the following accounting entries **CANNOT** help to conceal an asset misappropriation?
- A. Decreasing an asset
  - B. Increasing an asset
  - C. Increasing an expense
  - D. None of the above
- (1 mark)
73. Elvis runs an IT company. He uses accrual basis of accounting. In December of Year1, Elvis signed a contract with a client. The client paid the full amount of the contract in December of Year 1 though the work was to be performed the following year. Elvis recorded the contract revenue in December of Year1. Which one of the following is **ACCURATE** in regard to the recording of that financial transaction?
- A. The revenue should be recorded in December when Elvis received the cash, and the expenses should be recorded the following year when the work is performed
  - B. Both the revenue and expenses should be recorded in December
  - C. This transaction will not misrepresent the revenue earned during that financial year
  - D. None of the above
- (1 mark)
74. Jones, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a case of alleged financial statement fraud. As part of her expert testimony, Jones explained the requirements under International Financial Reporting Standards. Those standards require that the financial statements should be complete, neutral, and free from fraud or error. This concept is related to which of the following?
- A. Comparability
  - B. Transparency
  - C. Consistency
  - D. None of the above
- (1 mark)
75. A major company in the Information technology industry wants to purchase another company. It would be advisable that the acquiring company conduct which of the following assignments before the acquisition to establish the real financial performance and position of the organisation?
- A. Special audit
  - B. Forensic audit
  - C. Fraud investigation
  - D. None of the above
- (1 mark)

76. The Benford's Law can be useful in detecting fraudulent financial transactions. Which of the following statements is **NOT** true in regard to Benford's Law?
- A. Benford's Law can be help to identify patterns that indicative of fraud
  - B. Benford's Law can only work with natural numbers
  - C. Benford's Law cannot work with unnatural numbers
  - D. None of the above
- (1 mark)
77. Under the IFRS the proper basis for recording a piece of equipment, vehicle or building on a company's books is at \_\_\_\_\_.
- A. Historical cost or revaluation amount less accumulated depreciation
  - B. Sales value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. Revaluation value
- (1 mark)
78. The assumption that a business will continue at least in the next financial year is reflected in the accounting concept of \_\_\_\_\_.
- A. Profitability
  - B. Comparability
  - C. Liquidity
  - D. Going concern
- (1 mark)
79. Which of the following category of the statement of cash flows activities is useful in measuring a company's financial performance?
- A. Revenue activities
  - B. Investment activities
  - C. Financing activities
  - D. None of the above
- (1 mark)
80. Which of the following statements is **CORRECT** in regard to improper disclosures?
- A. Disclosures amounts are financial statements items
  - B. Disclosures should not be part of financial reporting
  - C. Failure to include disclosures would not fraudulently affect the financial reporting
  - D. None of the above
- (1 mark)
81. Which of the following, would **NOT** fraudulently affect the current ratio and therefore misleading decision makers?
- A. Overstated revenue
  - B. Improper valuation of inventory
  - C. Inadequate allowance for bad doubtful debts
  - D. None of the above
- (1 mark)
82. Under IPSAS, MDAs financial statements should **NOT** include which one of the following disclosures?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. List of vendors and contractors
- (1 mark)
83. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS for financial reporting
  - B. Kenya has adopted IPSAS for financial reporting for MDAs
  - C. IPSAS financial reporting require that MDAs uses the accrual basis of accounting
  - D. None of the above
- (1 mark)
84. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** correct in regard to external auditors 'initial concern'?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. The entity's finance team have knowledge and understanding of IPSAS and their applicability to the entity's financial statements
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. None of the above
- (1 mark)

85. Which of the following is a type of financial statement fraud?  
A. Omission of unearned revenue  
B. Adequate allowance for bad and doubtful debts  
C. Writing off obsolete inventory  
D. None of the above (1 mark)
86. Which of the following is **NOT** a type of financial statement fraud?  
A. Failure to write off bad debts  
B. Concealed expenditure  
C. Capitalisation of expenditure  
D. None of the above (1 mark)
87. Procurement fraud is rampant in both public and private sector. Which of the following exercise should auditors perform when auditing procurement for purposes of evaluating economy, efficiency and effectiveness?  
A. Forensic audit  
B. Fraud audit  
C. Procurement fraud audit  
D. None of the above (1 mark)
88. Which of the following scenarios would **NOT** require a forensic accountant?  
A. Calculation in lawsuits  
B. Business valuation  
C. Business combination  
D. Value for money audit (1 mark)
89. ABC Limited is planning to issue sale of public shares. Management deliberately failed to write off a substantial amount of bad debts and obsolete inventory. Which of the following **BEST** describe the type of financial statement fraud that was perpetrated by management?  
A. Improper assets valuation  
B. Overstated assets  
C. Understated debts  
D. None of the above (1 mark)
90. Which of the following statements is **NOT** correct in regard to recording of fictitious sales?  
A. Fictitious sales will result in overstated receivables  
B. Fictitious sales will result in inflated profits  
C. Fictitious sales will result in overstated current ratio  
D. None of the above (1 mark)
91. Which of the following is **NOT** a root causes of financial statements fraud?  
A. Rationalisation  
B. Situational pressure  
C. Opportunity  
D. None of the above (1 mark)
92. Cost of goods sold and corresponding sales should be recorded in the same accounting period. This accounting principle is called?  
A. Measuring concept  
B. Double entry principle  
C. Materiality principle  
D. None of the above (1 mark)
93. Which of the following statement of cash flows activities is **NOT** a type of cash flows from investing activities?  
A. Cash in from sale of an asset  
B. Cash out for payment of an asset  
C. Cash in from dividends  
D. None of the above (1 mark)

94. Which of the following financial ratios can be used to measure an organisation's ability to meet its immediate daily financial operations?
- A. Asset turnover ratio
  - B. Current ratio
  - C. Quick ratio
  - D. None of the above
- (1 mark)
95. Which of the following statements is **NOT** accurate regarding the statement of financial position?
- A. Liabilities are generally presented on the statement of financial position in the order of their maturity.
  - B. The statement of financial position shows the net worth of an entity as at the end of a given financial reporting period
  - C. Revenue and goodwill are recorded in the statement of financial position.
  - D. The statement of financial position provides a snapshot of the financial condition of an entity as at the reporting date
- (1 mark)
96. Which of the following financial items increase owner's equity?
- A. Retained earnings
  - B. Revenue
  - C. Understated expenses
  - D. None of the above
- (1 mark)
97. Which of the following is the most common type of fraudulent financial reporting scheme?
- A. Overstated revenue and understated expenditure
  - B. Overstated liabilities and understated revenue
  - C. Understated capital
  - D. Understated non – current assets
- (1 mark)
98. Which of the following is **ACCURATE** in regard to recording of current liabilities?
- A. Failure to record payables would inflate the current ratio
  - B. Failure to record payables would understate the profit
  - C. Failure to accrual expenses would understate the current ratio
  - D. None of the above
- (1 mark)
99. Which of the following is an item shown in the company's statement of financial position?
- A. Revenue
  - B. Prepaid expenses
  - C. Cost of revenue
  - D. None of the above
- (1 mark)
100. Which of the following is **ACCURATE** in regard to recording of receivables?
- A. Failure to record receivables would inflate the current ratio
  - B. Failure to record receivables would understate the profit
  - C. Failure to write off bad debts would understate the current ratio
  - D. None of the above
- (1 mark)
- .....





**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 24 April 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. This paper is made up of one hundred (100) Multiple Choice Questions. Each question is allocated one (1) mark.**

1. Which of the following is **NOT** true about forensic fraud audit and fraud investigation or examination?
  - A. Forensic audit and fraud investigation / examination are all investigation assignments
  - B. The objective of a forensic audit and an investigation is to collect evidence to prove or disapprove an allegation
  - C. Forensic audit or investigation is a methodology of resolving allegations of fraud from inception to disposition
  - D. All the above
2. In addition to accounting skills and knowledge, a forensic accountant must know the difference between which of the following **EXCEPT**?
  - A. An audit report and forensic audit report
  - B. Audit evidence and factual evidence
  - C. Information and evidence
  - D. None of the above
3. Forensic auditors do not necessarily have to be accountants. However, they must be knowledgeable in each of the following **EXCEPT**?
  - A. Identification of accounting fraud and the need to work with an accountant in accounting related frauds assignments
  - B. Identification and detection of fraud and corruption schemes
  - C. Basic Knowledge in financial reporting standards in both the private and public sector
  - D. None of the above
4. Which of the following is **NOT** accurate about GAAP and IFRS?
  - A. Both IFRS and GAAP require disclosures in financial statements
  - B. IFRS's leave less room for interpretation
  - C. IFRS's require lengthy disclosures on financial statement
  - D. None of the above
5. Applying the respective IFRS in recognising revenue, costs and expenses, proper asset valuation and inadequate disclosure would **NOT** result in which one of the following?
  - A. Fair representation of the financial position
  - B. Misrepresentation of the financial performance
  - C. Reliable opinion in relation to the going concern concept
  - D. None of the above
6. Which of the following is **ACCURATE** in regard to inventory valuation in financial reporting?
  - A. IFRS forbid the use of LIFO method of inventory valuation
  - B. The IAS standard requires inventories to be measured at cost value
  - C. Improper inventory valuation will result to overstated current assets and in return overstated current ratio
  - D. None of the above

7. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Revenue earned
  - B. Expenses incurred
  - C. Receivables
  - D. Cost of revenue
8. Which of the following statements is **NOT** true in regard to the statement of financial position?
- A. Current assets are generally presented first in order of liquidity on the statement of financial position
  - B. Non-current assets are recorded in the statement of financial position
  - C. The statement of owner's equity is recorded in the statement of financial position
  - D. None of the above
9. Which of the following is **NOT** correct about payables, receivables, liabilities, inventory, cash and bank?
- A. The above items are recorded in the statement of financial position and are used to calculate the current ratio to measure an organisation's liquidity
  - B. A current ratio that is too favourable is a red flag of overstated receivables, inventories or understated current liabilities or both
  - C. A current ratio can fraudulently be affected by overstated and understated receivables and payables respectively
  - D. None of the above
10. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which of the following actions would **NOT** balance the accounting equation?
- A. Reducing an expense
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. All the above
11. If a fraudster wanted to conceal misappropriation of cash, which of the following actions would help to conceal an asset misappropriation?
- A. Increasing revenue
  - B. Reducing an expense
  - C. Increasing a liability
  - D. None of the above
12. Making a credit entry in any account would help to conceal an asset misappropriation. Which of the following entries in the following accounts can help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Reducing an asset
  - C. Increasing revenue
  - D. None of the above
13. Liam runs a medium sized construction company. He got a contract to be performed over a period of five years. Liam signed a contract for the full contract amount with the client. By the end of Year 2 the company had performed and delivered only one third of the contract. Liam recorded the whole contract revenue amount in December of Year 2. Which one of the following is **NOT** true about the recording of that financial transaction?
- A. The revenue was recorded in accordance with the IFRS 15 standard for recognising revenue.
  - B. The transaction overstated the revenue earned during that financial year
  - C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences
  - D. All of the above
14. ABC company recorded substantial profits in the statement of profit or loss. The statement of cash flow recorded negative balances from the operating activities. Which of the following would have happened under the circumstances, where the company made profits according to the statement of profit or loss, while cash balances from the operating activities are in the negative?
- A. Timing difference
  - B. Skimming of receivables
  - C. Overstated revenue
  - D. All the above

15. Which of the following is **NOT** correct about the accounting model?
- A. Assets = Liabilities + Owners' Equity
  - B. Liabilities = Assets + Owners' Equity
  - C. The accounting model is presented in the statement of financial position
  - D. All the above
16. Which of the following **CANNOT** be used to balance the accounting equation to conceal cash misappropriation?
- A. Reducing revenue
  - B. Reducing a liability
  - C. Increasing an expense
  - D. None of the above
17. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine which of the following?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial position.
  - B. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's liquidity
  - C. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's net worth
  - D. None of the above
18. Which of the following appears on the statement of financial position of an organisation?
- A. Non-current assets
  - B. Expenses
  - C. Gross profit
  - D. None of the above
19. Joseph, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a trial of alleged financial statement fraud. As part of his expert testimony, Joseph explained the requirements under International Financial Reporting Standards related to receivables. Those standards require that the receivables be recognised at a fair value. During the investigation, Joseph found that some of the overdue receivable accounts with substantial amounts (meaning the amounts were material) were created from fictitious revenue and were still held in the receivables accounts and therefore were part of the end of year balance sheet items. Which of the following financial reporting would be fraudulently affected by the above scenario?
- A. The receivables will be overstated
  - B. The current ratio will be inflated
  - C. Net profit will be overstated
  - D. All the above
20. ABC Ltd. received an anonymous tip alerting the company that there is a lot of fraud and corruption going on in the company, especially in their procurement and finance department. The person receiving the tips is knowledgeable in fraud issues and confirmed the allegation to be reliable. He also analysed available information in relation to the anonymous tip and found that there was sufficient suspicion of fraudulent activity. The company has an Anti-fraud Policy which requires the company to effectively respond to fraud allegations. Under the circumstances, which of the following assignment should the company **NOT** conduct?
- A. Forensic investigation
  - B. Forensic audit
  - C. Fraud audit
  - D. Fraud examination
21. Which of the following statements is **NOT** true regarding the statement of changes in owners' equity?
- A. It is similar to the statement of retained earnings
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income
  - D. It shows the entity's financial position and performance

22. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result in which of the following?
- A. Understated expenses
  - B. Overstated revenue
  - C. Understated net profit
  - D. None of the above
23. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle or building on a company's books is at:
- A. Revaluation value
  - B. Cost value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. None of the above
24. Which of the following statements is **TRUE** with regard to net profit?
- A. Net profit is recorded in the statement of financial position
  - B. Net profit is equal to gross profit less operating expenses
  - C. Gross margin is equal to revenue less cost of goods
  - D. None of the above
25. A fraudster wanted to conceal the removal of a liability from the books, which of the following actions would balance the accounting equation?
- A. Increasing owners' equity
  - B. Decreasing an expense
  - C. Decreasing an asset
  - D. All the above
26. The assumption that a business will continue at least in the next financial year is reflected in the international accounting standards (IAS) accounting concept of:
- A. Consistency
  - B. Comparability
  - C. Liquidity
  - D. None of the above
27. Which of the following is **NOT** a category of the statement of cash flow?
- A. Operating activities
  - B. Investment activities
  - C. Control activities
  - D. All the above
28. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?
- A. Comparability
  - B. Going concern
  - C. Materiality
  - D. None of the above
29. Under IFRS 15, recognising revenue for work that is to be performed in subsequent accounting periods, even though the work has already been contracted, which of the following is **NOT** true in relation to recognising revenue for work that is to be performed during the following financial year?
- A. Revenue will be understated
  - B. Receivables will be overstated
  - C. Current ratio will be inflated
  - D. All the above
30. Which of the following is **TRUE** about IFRS in regard to financial reporting?
- A. IFRS enhance transparency, comparability and trust in the global financial sector
  - B. IFRS helps to increase the net worth and cash flows in the statement of financial position
  - C. IFRS are mandatory for financial reporting in all jurisdictions
  - D. IAS generally replace IFRS

31. Which of the following statements is **TRUE** regarding the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance
  - B. The statement of cash flows reports a company's assets and uses of cash during the accounting period
  - C. There are three types of cash flows activities; cash flows from operating activities, investing activities and financing activities
  - D. All the above
32. IFRS require that organisations disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year, and any other important information that the users of the financial statement would need to know. ABC and XYZ companies are controlled by the same directors. The directors of both companies did not disclose the ownership/control relationship between the two companies. Which of the following financial statement fraud was perpetrated by the company's directors?
- A. Financial statement fraud
  - B. Inadequate disclosure
  - C. Accounting fraud
  - D. Related party transactions fraud
33. Which of the following financial ratios can be used to detect fictitious revenues and receivables?
- A. Asset turnover ratio
  - B. Non-current ratio
  - C. Receivables collection period
  - D. None of the above
34. Under IPSAS, Ministries, Departments and Agencies (MDAs) financial statements should include progress on auditor's recommendations on pending bills note and analysis, and IFMIS generated reports among others. Which of the following is **TRUE** in regard to failure to include the above reports?
- A. There is red flag of financial statement fraud
  - B. There is a high risk of financial statement fraud
  - C. There is a high risk of asset misappropriation
  - D. All the above
35. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and public sectors respectively
  - B. SMEs are required to use IFRS standards for SMEs even though they do not have public accountability
  - C. Nairobi Securities Exchange requires companies trading in securities to use IFRS
  - D. None of the above
36. International Financial Reporting Standards (IFRS) provide financial reporting guidelines to prevent misrepresentation of financial statements. Which of following areas of reporting is **NOT** one of them?
- A. Fair value measurement
  - B. Revenue recognition
  - C. Assets measurement
  - D. None of the above
37. IPSAS require that ministries include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements. Which of the following is **TRUE** about a scenario where the note and analysis on pending bills in the financial statements and the pending bills listing differ?
- A. There is a red flag of concealed pending bills
  - B. There is a red flag of concealment of actuals versus budget
  - C. There is red flag of cash misappropriation
  - D. All the above

38. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** one of the major concerns of the external auditors?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;
  - B. That the entity's finance team are all Certified Public accountants
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's Financial Statements
39. Certified Fraud Examiners are guided by code of ethics. In the same way, forensic accountants and auditors are expected to observe which of the following code of ethics?
- A. Confidentiality, commitment, diligence and lawfulness
  - B. Integrity, independence, and objectivity
  - C. Responsibility to the profession
  - D. All the above
40. Which one of the following is **TRUE** about internal controls environment in regard to accounting?
- A. Internal controls do not protect company assets.
  - B. There is an accounting standard for internal controls
  - C. Internal controls help in risk management
  - D. All the above
41. Which of the following statements is **TRUE** about risk-based audit?
- A. The auditor should prioritise the audit according to the level of the risk, that is, high to low approach
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and response to fraud risks
  - C. To detect fraud in high-risk areas, the auditor uses tests and procedures specifically designed to detect fraud
  - D. All the above
42. Which of the following terminologies **CANNOT** be used interchangeably with fraud investigations?
- A. Forensic fraud audit
  - B. Fraud examination
  - C. Fraud audit
  - D. None of the above
43. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in the following areas **EXCEPT**?
- A. Advanced financial reporting
  - B. Identification of fraudulent financial transactions
  - C. Financial statement fraud schemes
  - D. All the above
44. Which of the following is **TRUE** about IPSAS and IFRS?
- A. IPSAS is rule based while IFRS are principle based
  - B. IFRS leave no room for prior period error corrections
  - C. IFRS require recognition, measurement, presentation and disclosures
  - D. All the above
45. Failure to apply the respective IFRS in recognising revenue, improper deferral of costs and expenses, improper asset valuations and inadequate disclosure could result to:
- A. Misrepresentation of the statement of financial position
  - B. Misrepresentation of the financial performance
  - C. Claims of fraudulent financial reporting
  - D. All the above

46. Jipe Ltd. has always used the first-in, first-out (FIFO) inventory valuation method when calculating its cost of goods sold. This is industry standard for inventory valuation method for Jipe Ltd. If management used another method that will result to reduced cost of goods, which of the following **BEST** describes the outcome of this inventory valuation method?
- A. The gross profit margin would be overstated
  - B. The net income would be overstated
  - C. The closing stock would be overstated
  - D. All the above
47. Which of the following is the best description of what is shown on a company's statement of profit or loss and other comprehensive income?
- A. The company's financial position at a specific point in time
  - B. The changes in the total owners' equity amount listed on the statement of financial position
  - C. How much profit (or loss) the company earned over a particular period of time
  - D. The company's sources and uses of cash during a particular period of time
48. Which of the following statements is **TRUE** regarding the statement of financial position?
- A. Non-current assets are generally presented on the statement of financial position in order of maturity.
  - B. Statements of financial position is usually manipulated by understating assets and overstating liabilities.
  - C. The statement of financial position shows the net worth of a company at a given financial reporting date
  - D. Revenues and expenses accounts are recorded in statement of financial performance
49. Payables, receivables, retained earnings, and deferred tax are recorded in which of the following financial statement?
- A. Statement of changes in owners' equity
  - B. Statement of financial position
  - C. Statement of cash flows
  - D. Statement of profit or loss and other comprehensive income
50. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would **NOT** result in a balanced accounting equation?
- A. Reducing owners' equity
  - B. Creating an expense
  - C. Decreasing a liability
  - D. Reducing an asset
51. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would help to conceal an asset misappropriation?
- A. Increase an asset
  - B. Creating an expense
  - C. Decreasing a liability
  - D. All the above
52. Making a debit entry in any account would help to conceal an asset misappropriation. Which of the following entries in the following accounts **CANNOT** help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Increasing an asset
  - C. Increasing an expense
  - D. None of the above
53. Jonathan runs an IT company. He uses accrual basis of accounting. In December of Year 1, Jonathan signed a contract with a client. The client paid the full amount of the contract in December of Year 1 though the work was to be performed the following year. Jonathan recorded the contract revenue in December of Year1. Which one of the following is **NOT** accurate about the recording of that financial transaction?
- A. The revenue should be recorded in December when Jonathan received the cash, and the expenses should be recorded the following year when the work is performed.
  - B. Both the revenue and expenses should be recorded in December.
  - C. This transaction will not misrepresent the revenue earned during that financial year
  - D. None of the above

54. ABC company recorded substantial profit in the profit and loss account. The statement of cash flows recorded negative balances from the operating activities. Which of the following is **NOT** a red flag of financial statement fraud?
- A. Recording of fictitious revenue
  - B. Skimming of receivables
  - C. Overstated revenue
  - D. None of the above
55. Which of the following is the correct accounting model?
- A.  $\text{Assets} + \text{Liabilities} = \text{Owners' Equity}$
  - B.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - C.  $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - D. None of the above
56. Which of the following can help conceal cash misappropriation by balancing the accounting equation?
- A. Increasing revenue
  - B. Increasing a liability
  - C. Reducing an expenditure
  - D. None of the above
57. Which of the following statements is **TRUE** with regard to the statement of cash flows?
- A. The statement of cash flows is one of the five financial statements in financial reporting
  - B. The statement of cash flows is not always necessary because most companies operate under cash-basis accounting rather than accrual accounting
  - C. There are four types of cash flows: cash flows from operating activities, from investing activities, from financing activities and from payment activities
  - D. The statement of cash flows shows a company's financial performance and position at the end of a given period
58. Which of the following appears on the statement of profit or loss?
- A. Receivables
  - B. Value Added Tax (VAT)
  - C. Liabilities
  - D. None of the above
59. Jonathan, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a case of alleged financial statement fraud. As part of his expert testimony, Jonathan explained the requirements under International Financial Reporting Standards. Those standards require that the financial statements should be complete, neutral, and free from fraud or error. This concept is related to which of the following?
- A. Relevance
  - B. Comparability
  - C. Faithful representation
  - D. Consistency
60. A major company in the construction industry wants to acquire another company. It would be advisable that the acquiring company conduct which of the following assignments before the acquisition to establish the real financial performance and position of the organisation?
- A. Forensic accounting
  - B. Forensic audit
  - C. Fraud investigation
  - D. All the above
61. The Benford's Law can be useful in detecting fraudulent financial transactions. Which of the following statements is **NOT** true in regard to Benford's Law?
- A. Benford's Law can be help to identify patterns that indicative of fraud
  - B. Benford's Law can only work with natural numbers
  - C. Benford's Law can work with both natural and unnatural numbers
  - D. None of the above



62. Which of the following statements is **NOT** true regarding the statement of changes in owners' equity?
- A. Changes in owners' equity is similar in certain circumstances to the statement of retained earnings.
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of cash flows.
  - C. Owners' equity acts as a link between the statement of financial position, the statement of profit or loss and other comprehensive income and non-current liabilities.
  - D. It shows the company's major liabilities over the financial year.
63. As a sale is made, the appropriate charges for cost of goods sold or other expenses directly corresponding to the sale should be recorded in the same accounting period. This accounting principle is called?
- A. Corresponding principle
  - B. Double entry principle
  - C. Comparability principle
  - D. None of the above
64. Under the IAS 16, the proper basis for recording a piece of equipment, vehicle or building on a company's books is at:
- A. Historical cost or revaluation amount less accumulated depreciation
  - B. Sales value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. Revaluation value less costs to sell
65. Which of the following statements is **TRUE** with regard to gross margin?
- A. Gross margin is the difference between cost of sales and operating costs
  - B. Gross margin is equal to net sales less cost of goods sold
  - C. Gross margin is equal to revenue less operating expenses
  - D. None of the above
66. To conceal the removal of a liability from the books, which of the following actions would **NOT** balance the accounting equation and therefore not conceal the fraud?
- A. Increasing owners' equity
  - B. Increasing revenue
  - C. Increasing an expenditure
  - D. Increasing a different liability
67. The assumption that a business will continue at least in the next financial year is reflected in the accounting concept of:
- A. Profitability
  - B. Comparability
  - C. Liquidity
  - D. None of the above
68. Which of the following is the most important category of the statement of cash flows in measuring a company's financial performance?
- A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. All the above
69. Which of the following statements is **CORRECT** in regard to improper disclosures?
- A. Disclosures amounts are financial statements items
  - B. Disclosures amounts are not financial statements items
  - C. Disclosures should not be part of financial reporting
  - D. Failure to include disclosures would not fraudulently affect the financial reporting
70. Which of the following, would fraudulently affect the current ratio and therefore misleading decision makers?
- A. Accrual of expenses
  - B. Proper valuation of inventory
  - C. Inadequate provision for bad doubtful debts
  - D. None of the above

71. Under IPSAS, MDAs financial statements should **NOT** include which one of the following disclosures?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. None of the above
72. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS for financial reporting
  - B. Kenya has adopted IPSAS for financial reporting for MDAs
  - C. IPSAS financial reporting require that MDAs uses the accrual basis of accounting
  - D. None of the above
73. International Financial Reporting Standards (IFRS) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance on several reporting areas. Which of the following is **NOT** one of those reporting areas?
- A. Revenue recognition
  - B. Asset valuation
  - C. Disclosures
  - D. None of the above
74. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** true about the external auditors' initial concern?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems
  - B. The entity's finance team have advanced knowledge and understanding of IPSAS and their applicability to the entity's financial statements
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. None of the above
75. According to the Association of certified Fraud Examiners, the code of conduct for fraud examiners is basically based on several principles. Which of the following is **NOT** one of those principles?
- A. Confidentiality
  - B. Integrity and objectivity
  - C. Independence
  - D. None of the above
76. Which one of the following statements is **NOT** correct in regard to Internal control environment in regard to accounting?
- A. Internal controls are the mechanisms, rules and procedures designed and implemented by the internal audit functions
  - B. Internal controls ensure the integrity of financial and accounting information
  - C. Internal controls environment enforces all other controls
  - D. All the above
77. Which of the following is a type of financial statement fraud?
- A. Omission of unearned revenue
  - B. Adequate provision for bad and doubtful debts
  - C. Failure to write off obsolete inventory
  - D. All the above
78. Which of the following is **NOT** a type of financial statement fraud?
- A. Writing off bad debts
  - B. Concealed expenditure
  - C. Capitalisation of expenditure
  - D. None of the above

79. Procurement fraud is a high risk in the public sector. Which of the following exercise should auditors perform when auditing procurement for purposes of evaluating economy, efficiency and effectiveness?
- A. Forensic audit
  - B. Fraud audit
  - C. Value for money audit
  - D. None of the above
80. Which of the following scenarios would **NOT** require a forensic accountant?
- A. Special audit
  - B. Calculation in lawsuits
  - C. Business valuation
  - D. Business combination
81. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at which of the following?
- A. Revaluation value less cost to sell
  - B. Sales value less accumulated depreciation
  - C. Cost value plus accumulated depreciation
  - D. None of the above
82. Esso Limited seeks to invite potential investors into the company. The managing director instructed the accountant to artificially increase the value of non-current assets so as to increase the company's net worth. What type of financial statement fraud was management perpetrating?
- A. Improper assets valuation
  - B. Improper assets impairment
  - C. Improper asset revaluation
  - D. Improper assets net adjustment
83. Which of the following statements is **NOT** correct in regard to recording of fictitious sales?
- A. Fictitious sales will result in overstated receivables
  - B. Fictitious sales will result in inflated profits
  - C. Fictitious sales will result in understated current ratio
  - D. None of the above
84. Which of the following is **NOT** a root cause of financial statements fraud?
- A. Rationalisation
  - B. Situational pressure
  - C. Low perception of detection
  - D. None of the above
85. Cost of goods sold and corresponding sales should be recorded in the same accounting period. This accounting principle is called?
- A. Measuring concept
  - B. Double entry principle
  - C. Materiality principle
  - D. Matching principle
86. Which of the following statement of cash flows activities is **NOT** a type of cash flows from operating activities?
- A. Investment dividends
  - B. Share capital
  - C. Cash from a loan
  - D. All of the above
87. Which of the following financial ratios can be used to measure an organisation's ability to meet its immediate daily financial operations?
- A. Asset turnover ratio
  - B. Current liability ratio
  - C. Cost of sales ratio
  - D. None of the above

88. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and mining sector respectively
  - B. SMEs are not allowed to use IFRS standard for SME'S if they have public accountability
  - C. Nairobi Securities Exchange require companies trading in the Securities exchange with public accountability to use IFRS
  - D. All the above
89. Which of the following statements is **NOT** accurate regarding the statement of financial position?
- A. Liabilities are generally presented on the statement of financial position in order of maturity.
  - B. Statements of financial position is usually manipulated by understating assets and overstating liabilities.
  - C. The statement of financial position shows the net worth of a company at a given financial reporting date
  - D. Revenues and goodwill accounts are recorded in statement of financial comprehensive income
90. Owners' equity can be affected by which of the following:
- A. Shareholders' funds, dividends and liabilities
  - B. Shareholders' funds, net income and loans
  - C. Net income, working capital and loans
  - D. None of the above
91. Which of the following is the most common type of financial statements fraud?
- A. Overstated revenue and concealment of expenditure
  - B. Overstated liabilities and expenses
  - C. Understated working capital
  - D. Understated non – current assets
92. Which of the following is **NOT** true in regard to recording of current liabilities?
- A. Failure to record payables would inflate the current ratio
  - B. Failure to record payables would inflate the profit
  - C. Failure to accrual expenses would overstate the current assets
  - D. None of the above
93. Which of the following statements is **NOT** accurate in regard to forensic audit?
- A. The assumption of a forensic audit is that it might end up in litigation
  - B. The forensic audit should be conducted only on sufficient predication
  - C. The scope of a forensic audit should be specific to the facts in issue
  - D. None of the above
94. Which of the following is **NOT** a characteristic of a good Fraud examiner?
- A. A good interviewer
  - B. Compassionate
  - C. People's person
  - D. None of the above
95. Which of the following is **NOT** correct in regard to forensic audit and audit reports?
- A. The conclusion of an audit report is an opinion
  - B. The conclusion of a forensic audit report is a summary of the findings
  - C. The conclusion of a forensic audit report is recommendations on action to be taken based on evidence collected
  - D. None of the above
96. Which of the following is **NOT** true about Forensic auditors?
- A. A well trained and experienced accountant/auditor can also conduct effective forensic audits
  - B. Forensic auditor should be knowledgeable in fraud Identification and detection
  - C. Basic Knowledge in financial reporting standards in both the private and public sector
  - D. All the above

97. Which of the following is **NOT** true in regard to IFRS?
- A. Disclosures in financial statements is one of the IFRSs
  - B. IFRSs do not leave room for interpretation
  - C. IFRSs leave room for interpretation
  - D. IFRSs require lengthy disclosures on financial statement
98. Which of the following is **NOT** true in regard to IFRS and financial reporting?
- A. Strict adherence to IFRS would result in fair representation of the financial performance of an organisation
  - B. Strict adherence to IFRS would result in an understated performance of an organisation
  - C. Strict adherence to IFRS would result in fair representation of the financial position of an organisation
  - D. None of the above
99. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Revenue
  - B. Bad debts
  - C. Expenditure
  - D. None of the above
100. Which of the following is an item shown in the statement of owners' equity?
- A. Current liabilities
  - B. Expenditure
  - C. Retained earnings
  - D. None of the above
- .....

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**CERTIFIED FORENSIC FRAUD EXAMINER (CFFE)**

**MODULE ONE**

**INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**MONDAY: 5 December 2022. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. This paper is made up of one hundred (100) Multiple Choice Questions. Each question is allocated one (1) mark.**

1. Which of the following is **CORRECT** about forensic accounting?
  - A. A forensic accountant must be an accountant
  - B. Forensic accounting is an in-depth audit
  - C. Forensic accounting is only conducted for court purposes
  - D. None of the above
2. Which of the following is **TRUE** about forensic fraud?
  - A. The objective of a forensic audit is to collect evidence to prove or disapprove an allegation
  - B. Forensic audit is a methodology of resolving fraud issues from inception to disposition
  - C. Forensic audit is an in-depth audit
  - D. All the above
3. Which of the following is **NOT** correct in regard to forensic audit and audit reports?
  - A. The conclusion of an audit report is an opinion
  - B. The conclusion of a forensic audit report is a summary of the findings
  - C. The conclusion of a forensic audit report is recommendations on actions to be taken based on evidence collected
  - D. None of the above
4. Which of the following is **NOT** true about Forensic auditors?
  - A. A well-trained and experienced accountant/auditor can also conduct effective forensic audits
  - B. Forensic auditor should be knowledgeable in fraud Identification and detection
  - C. Basic knowledge in financial reporting standards in both the private and public sector
  - D. All the above
5. Which of the following is **NOT** true in regard to International Financial Reporting Standards (IFRS's)?
  - A. Disclosures in financial statements is one of the IFRS
  - B. IFRS's do not leave room for interpretation
  - C. IFRS's leave room for interpretation
  - D. IFRS's require lengthy disclosures on financial statement
6. Which of the following is **NOT** true in regard to International Financial Reporting Standards (IFRS's) and financial reporting?
  - A. Strict adherence to IFRS would result in fair representation of the financial performance of an organisation
  - B. Strict adherence to IFRS would result in an understated performance of an organisation
  - C. Strict adherence to IFRS would result in fair representation of the financial position of an organisation
  - D. None of the above
  - E.

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7. Which of the following is **NOT** an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Revenue
  - B. Capital expenditure
  - C. Expenditure
  - D. Cost of revenue
8. Which of the following is an item shown in the statement of owners' equity?
- A. Capital expenditure
  - B. Expenditure
  - C. Retained earnings
  - D. None of the above
9. Which of the following is **NOT** an item shown in the company's statement of financial position?
- A. Current liabilities
  - B. Current assets
  - C. Non-current assets
  - D. None of the above
10. Which of the following statements is **NOT** true in regard to the statement of financial position?
- A. Current assets are generally recorded in order of liquidity on the statement of financial position
  - B. Non-current assets are recorded in the statement of financial position
  - C. Capital expenditure is recorded in the statement of financial position
  - D. None of the above
11. Which of the following is **NOT** true about the current ratio?
- A. Non-current assets are not used to calculate the current ratio
  - B. A current ratio that is too favorable is a red flag of misrepresentation of current assets and liabilities
  - C. A current ratio can be fraudulently affected by overstatement of non-current assets
  - D. All the above
12. Which of the following statement is **CORRECT** in regard to recording of expenses?
- A. Payment of expenses not incurred is a current asset and not an expenditure
  - B. Recording of payment of expenses not incurred as expenditure will overstate profit
  - C. Recording of payment of expenses not incurred as expenditure will understate expenditure
  - D. None of the above
13. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which of the following actions might **NOT** balance the accounting equation?
- A. Increasing an asset
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. Reducing an expense
14. Which of the following actions would aid a fraudster to conceal an asset misappropriation?
- A. Increasing liability
  - B. Reducing an asset
  - C. Reducing liability
  - D. None of the above
15. Which of the entries made in the following accounts will conceal an asset misappropriation?
- A. Increasing payables
  - B. Reducing an asset
  - C. Increasing revenue
  - D. None of the above
16. Wisdom Wambua runs a construction company. Wisdom received a contract to be performed over a period of five years and signed a contract for the full contract amount with the client. By the end of Year 2 the company had

- performed and delivered only a quarter of the contract. Wisdom recorded the whole contract revenue amount in December of Year 2. Which one of the following is **NOT** true in regard to the above transaction.?
- The revenue was not recorded in accordance with the IFRS 15 guidance for recognising revenue.
  - The transaction understated the revenue earned during that financial year
  - The transaction is a type of financial statement fraud scheme referred to as timing differences
  - All of the above
17. ABC company recorded substantial profit in the statement of profit and loss. The statement of cash flow recorded negative balances from the operating activities. Which of the following would have happened under the circumstances, where the company made profits according to the statement of profit and loss and negative cash balances from the operating activities?
- Management of ABC company understated revenue
  - Management of ABC company overstated expenses
  - Management of ABC company concealed expenses
  - All the above
18. Which of the following is **CORRECT** in regard to the accounting equation?
- $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
  - $\text{Liabilities} = \text{Assets} + \text{Owners' Equity}$
  - $\text{Assets} = \text{Liabilities} - \text{Owners' Equity}$
  - $\text{Assets} = \text{Current Liabilities} + \text{Owners' Equity}$
19. Which of the following transaction **CANNOT** be used to balance the accounting equation to conceal cash misappropriation?
- Reducing revenue
  - Reducing a liability
  - Reducing an expense
  - All of the above
20. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine which of the following?
- The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial position.
  - The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's financial performance
  - The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's net worth
  - None of the above
21. Which of the following appears on the statement of financial position of an organisation?
- Bad debts
  - Expenses
  - Gross profit
  - None of the above
22. Donald Mreefu, a Certified Forensic Fraud Examiner, was hired to conduct an investigation on alleged fraudulent financial reporting. He was also retained to serve as an expert witness in a court of law, to give an expert testimony. In his expert testimony he explained that the financial statements were materially misrepresented because a substantial amount of expenditure was omitted in the financial statements. Which of the following **BEST** describes how the omission fraudulently affected the financial statements?
- The liabilities were overstated
  - The liabilities were understated
  - Net profit was understated
  - All the above
23. Right Ltd. received an anonymous tip alerting the company that there is a lot of fraud and corruption going on in the company especially in their procurement and finance department. The person receiving the tips is



- knowledgeable in fraud issues. He confirmed the allegation to be reliable and that there was sufficient predication that fraud had occurred. The company has an anti-fraud policy which requires the company to effectively respond to fraud allegations. Under the circumstances, which of the following assignment should the company conduct?
- A. Forensic accounting
  - B. Forensic audit
  - C. Fraud audit
  - D. Any of the above
24. Big Ltd. is in negotiations with Small Ltd. to buy Small Ltd's shares. Big Ltd. has received Small Ltd's end of year qualified financial statements. Which of the following statements is **CORRECT** in regard to establishing the exact financial performance and position of Small Ltd.?
- A. Big Ltd. can rely on Small Ltd. audited financial statements since the financial statements were unqualified
  - B. Big Ltd. could rely on Small Ltd. audited financial statements if the financial statements were qualified
  - C. Big Ltd. needs to conduct a forensic accounting on the financial statements before acquiring Small Ltd.
  - D. Big Ltd. needs to conduct a forensic audit on the financial statements before acquiring Small Ltd.
25. Kamueya Oluoch Certified Public Accountants audit firm, conducted an annual audit of Britex Company. Britex Company is listed in the Securities Exchange. Based on the audit evidence, the auditor concluded that there was a high risk of material misrepresentation of receivables and current liabilities. Which of the following is a suitable opinion to be expressed by the auditor?
- A. Qualified opinion on the receivables and current liabilities
  - B. Unqualified opinion on the receivables and current liabilities
  - C. A disclaimer opinion
  - D. An adverse report
26. Which of the following statements is **TRUE** regarding the statement of changes in owners' equity?
- A. It is similar to the statement of retained earnings.
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position.
  - C. It acts as a link between the statement of financial performance and the statement of profit or loss and other comprehensive income.
  - D. It shows the entity's financial position and performance
27. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result to which of the following?
- A. Overstated profit
  - B. Overstated revenue
  - C. Understated net profit
  - D. All the above
28. Under the International Financial Reporting Standards (IFRS), which of the following is **NOT** a proper basis for recording a piece of equipment in the company's books?
- A. Revaluation value
  - B. Cost value
  - C. Current market value
  - D. All the above
29. Which of the following is **CORRECT** in regard to double entry theory in relation to concealment of asset misappropriation?
- A. A fraudster can conceal an asset misappropriation by crediting the asset account and debiting another asset account
  - B. A fraudster can conceal an asset misappropriation by crediting the asset account and reducing an expenditure account
  - C. A fraudster can conceal asset misappropriation by debiting the asset account and debiting a liability account
  - D. A fraudster can conceal asset misappropriation by crediting the asset account and increasing a payables account

30. Which of the following statements is **TRUE** in regard to net profit?
- A. Net profit is recorded in the statement of financial position
  - B. Net profit is equal to gross profit less operating expenses
  - C. Net profit is equal to revenue less operating expenses
  - D. None of the above
31. A fraudster wanted to conceal the removal of a liability from the books, which of the following actions would **NOT** conceal the removal of the liability?
- A. Increasing revenue
  - B. Decreasing an expense
  - C. Decreasing an asset
  - D. None of the above
32. The assumption that a business will continue at least in next financial year is reflected in \_\_\_\_\_ accounting concept.
- A. Consistency
  - B. Comparability
  - C. Going concern
  - D. None of the above
33. Which of the following is **NOT** a category of the statement of cash flow activities?
- A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. None of the above
34. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?
- A. Comparability
  - B. Matching principle
  - C. Materiality
  - D. None of the above
35. Under International Financial Reporting Standard (IFRS) 15, recognising revenue for work that is to be performed in the subsequent accounting periods, even though the work has already been paid for in advance is what type of financial statement fraud scheme?
- A. Overstatement of liabilities
  - B. Improper disclosures
  - C. Timing differences
  - D. None of the above
36. The statement of changes in owners' equity acts as the connecting link between which two financial statements?
- A. Statement of financial position and statement of profit and loss
  - B. Statement of profit or loss and other comprehensive income and statement of assets
  - C. Statement of profit or loss and other comprehensive income and statement of cash flows
  - D. None of the above
37. Which of the following is **NOT** true about International Financial Reporting (IFRS) in regard to financial reporting?
- A. IFRS compromise transparency and trust in the global market
  - B. IFRS require enhanced disclosures
  - C. IFRS bring efficiency and accuracy to serve public interest.
  - D. All the above

38. International Financial Reporting Standard (IFRS) requires that organisations disclose matters related to doubt about a company's ability to fulfill its financial obligations at least in the next financial year and any other important information that the users of the financial statement would require to know. JKL and RQM companies are controlled by the same directors. The directors of both companies did not disclose the business relationship between the two companies Which of the following **BEST** describes the financial statement fraud scheme that the directors were involved in?
- A. Financial statement fraud
  - B. Inadequate disclosure
  - C. Accounting fraud
  - D. Related party transactions
39. Which of the following financial ratios can be used to detect fictitious receivables?
- A. Asset turnover ratio
  - B. Receivable turnover ratio
  - C. Inventory turnover ratio
  - D. None of the above
40. Under International Public Sector Accounting Standards (IPSAS), Ministries, departments and agencies (MDAs) financial statements should include, progress on auditor's recommendations, pending bills note and analysis, and Integrated Financial Management Systems (IFMIS) generated reports among others. Which of the following is **NOT** correct in regard to failure to include the above reports?
- A. Failure to disclose the above reports is a red flag of financial statement fraud
  - B. Failure to disclose the above reports is a of high risk of financial statement fraud
  - C. The auditor should recommend for a financial statement fraud audit, where the above reports are not disclosed
  - D. Failure to disclose the above reports is an indicator that fraud has actually occurred
41. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS, IAS and IPSAS standards for financial reporting in the private and public sector respectively
  - B. SME's are not required to uses IFRS
  - C. Nairobi Securities Exchange require companies trading in the securities exchange to apply IFRS in financial reporting
  - D. All the above
42. International Financial Reporting Standards (IFRS) provides financial reporting standards to prevent misrepresentation of financial statements. Which of the following statement is **CORRECT** in regard to failure to adhere to International Financial Reporting standards (IFRS)?
- A. The effect would be fair value measurement
  - B. The expenses recognition would not be accurate
  - C. The assets valuation would be fair
  - D. None of the above
43. IPSAS require that ministries include a note and analysis on pending bills in the financial statements, the listing should agree with the pending bills note in the financial statements. Which of the following is **CORRECT** in regard to a variance between pending bills in the financial statements and the pending bills listing?
- A. There is a high risk of concealed pending bills
  - B. There is no red flag of concealment of actuals versus budget
  - C. There is no red flag of overstated pending bills
  - D. All the above
44. When planning an audit of an entity's financial statements under IPSAS, which of the following is **NOT** one of the major concerns of the external auditors?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;

- B. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - C. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's financial statements
  - D. The entity's finance team has expertise in all the IPSAS and their applicability to the entity's financial statements
45. Which of the following is generally **NOT** a code of ethics for Certified Forensic Fraud Examiners, forensic accountants and accountants?
- A. Confidentiality, commitment, diligence and lawfulness
  - B. Competition and intelligence gathering
  - C. Moral principles
  - D. None of the above
46. Which one of the following is **NOT** true about internal control environment?
- A. Internal control environment defines the organisations attitude towards compliance with internal controls.
  - B. Internal control environment creates a foundation for all other controls
  - C. Internal control environment components are types of hard controls
  - D. All the above
47. Which of the following is **NOT** true about risk-based audit?
- A. The auditor should prioritise the audit according to the level of the risk, that is, high to low approach
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and response to fraud risks
  - C. The auditor should prioritise the audit according to the level of the risk, that is, low to high approach
  - D. All the above
48. Which of the following statements is **NOT** correct in regard to forensic accounting and forensic audits?
- A. Not all forensic accounting are forensic audits
  - B. Some forensic accounting assignments are similar to forensic audits
  - C. Some forensic audits are similar to forensic accounting
  - D. None of the above
49. Which of the following terminologies **CANNOT** be used interchangeably with forensic audit?
- A. Fraud detection audit
  - B. Fraud examination
  - C. Fraud investigation
  - D. All the above
50. Which of the following skills and knowledge is **NOT** a must for a forensic accountant?
- A. Good knowledge of laws related to fraud
  - B. Good knowledge of rules of evidence
  - C. Good Interviewing skills
  - D. None of the above
51. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in various areas. Which of the following is **NOT** one of those areas?
- A. Knowledge in financial statement fraud detection methods
  - B. Knowledge in conducting routine audits
  - C. Knowledge of the common financial statement fraud schemes
  - D. All the above
52. Which of the following is **TRUE** about Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)?
- A. GAAP is principle based while IFRS are rule based
  - B. IFRS leave room for interpretation
  - C. IFRS does not require lengthy disclosures on financial statement

- D. All the above
53. Failure to adhere to the respective IFRS in recognising revenue, recording of costs and expenses, valuation of current assets could result to:
- A. Misrepresentation of the entity's current liabilities
  - B. Understatement of receivables
  - C. Unfavorable current ratio
  - D. None of the above
54. Toto Ltd. has always used the first-in, first-out (FIFO) inventory valuation method when calculating its cost of goods sold. This is an industry standard for inventory valuation method for Toto Ltd. If management used another method that will result to reduced cost of goods, which of the following is **CORRECT** in relation to understated cost of inventory
- A. The gross profit margin would be understated
  - B. The net income would be understated
  - C. The closing stock would be understated
  - D. None of the above
55. Which of the following is **TRUE** about what is shown on a company's statement of profit or loss and other comprehensive income?
- A. The company's financial position at a specific point in time
  - B. The changes in the total owners' equity
  - C. The sources and application of funds
  - D. None of the above
56. Which of the following statements is **NOT** true in regard to the statement of financial position of a listed company?
- A. Current assets are required to be presented in order of liquidity
  - B. The statements of financial position are usually manipulated by understating assets and overstating liabilities.
  - C. The statements of financial position are usually manipulated by overstating assets and concealing liabilities
  - D. All the above
57. Which of the following is **NOT** true in regard to recording of receivables?
- A. Management should not write off bad debts, but rather collect the bad debts
  - B. Failure to write off bad debts would overstate the receivables
  - C. Management should write off bad debts, as they make efforts to collect
  - D. Failure to write off bad debts would inflate the current ratio
58. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would conceal the asset misappropriation?
- A. Increasing owners' equity
  - B. Reducing an expense
  - C. Increasing an asset
  - D. All the above
59. Which of the following actions would aid a fraudster to conceal misappropriation of inventory?
- A. Reduce an asset
  - B. Reduce an expense
  - C. Increase a liability
  - D. None of the above

60. Seon runs a chemical company. Seon wants to borrow money from the bank to pay off his operational cost that the company is unable to pay from revenue generated from operations. He is aware that the bank cannot provide financing to cater for operational costs. Therefore, he applies for a loan for expansion. Which of the following statement is **NOT** correct in regard to financial reporting of the company, for purposes of facilitating financing?
- A. The company will increase revenue through fictitious sales and omit expenditures incurred
  - B. The company will create fictitious expenditures and liabilities
  - C. The company will capitalise expenditure
  - D. All the above
61. ABC company recorded substantial profit in the profit and loss account. The statement of cash flow recorded negative balances from the operating activities. This is red a flag of which of the following financial statement fraud?
- A. Recognising unearned revenue
  - B. Overstated expenses
  - C. Understated revenue
  - D. All the above
62. Which of the following could be used to balance the accounting equation to conceal cash misappropriation?
- A. Increasing equity
  - B. Increasing a liability
  - C. Reducing an asset
  - D. None of the above
63. Which of the following is an item of statement of profit and loss account?
- A. Capital expenditure
  - B. Expenditure
  - C. Liabilities
  - D. All the above
64. Davies Juma, a Certified Forensic Fraud Examiner, was hired to serve as an accounting expert witness in a case of alleged financial statement fraud. As part of his expert testimony, Davies explained the requirements under International Financial Reporting Standards. Which of the following is **CORRECT** in regard to financial statements that are not complete, neutral, and free from fraud or error.
- A. Relevance
  - B. Comparability
  - C. Consistency
  - D. None of the above
65. A foreign investor wants to make a high investment in JR International. It would be advisable that the investor conduct which of the following assignments before making a decision to invest in the company?
- A. Forensic audit
  - B. Special audit
  - C. Statutory audit
  - D. Forensic Accounting
66. Which of the following statements is **NOT** true in regard to the statement of changes in owners' equity?
- A. Changes in owners' equity and statement of retained earnings are similar but they are not identical
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position.
  - C. Owners' equity acts as a link between the statement of financial position and the statement of profit or loss and other comprehensive income.
  - D. All the above

67. Which of the following statements is **TRUE** in regard to gross margin?
- A. Gross margin is the difference between cost of sales and operating costs
  - B. Gross margin is equal to sales less cost of goods sold
  - C. Gross margin is equal to revenue less operating expenses
  - D. None of the above
68. Which of the following is the most important activity of the statement of cash flows that can be used to determine a company's financial performance?
- A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. None of the above
69. Which accounting basis requires that expenses be recognised when incurred and revenue when earned regardless of whether the expenses are paid or revenue is received during the financial year.
- A. Cash basis of accounting
  - B. Consistency basis of accounting
  - C. Accrual basis
  - D. None of the above
70. Under International Financial Reporting Standards (IFRS) 15, recognising revenue for work that is to be performed in subsequent accounting periods, even though the work has already been contracted would result in:
- A. Overstated revenue
  - B. Overstated current asset
  - C. Understated cost of sales
  - D. All the above
71. The statement of changes in owners' equity acts as the connecting link between which two financial statements?
- A. Statement of financial position and statement of retained earnings
  - B. Statement of profit or loss and other comprehensive income and statement of financial performance
  - C. Statement of profit or loss and other comprehensive income and statement of financial position
  - D. None of the above
72. Which of the following is **TRUE** about International Financial Reporting Standards (IFRS) in regard to financial reporting?
- A. IFRS enhance transparency and integrity of the financial statements
  - B. IFRS reduce the profits of the reporting organisation
  - C. IFRS reduce the non-current assets value
  - D. None of the above
73. Which of the following statements is **NOT** correct in regard to the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance.
  - B. The statement of cash flows reports a company's sources and uses of cash during the accounting period.
  - C. There are three types of cash flows; cash flows from operating activities, from strategic activities and from financing activities.
  - D. All the above
74. Which of the following statements is **CORRECT** in regard to improper disclosures?
- A. Disclosures amounts are financial statements amounts
  - B. Disclosures amounts are not financial statements amounts
  - C. Disclosures must be included in financial reporting
  - D. Failure to include disclosures would not fraudulently affect the financial reporting

75. Which of the following, would fraudulently affect the current ratio and therefore become misleading for decision makers?
- A. Accrual of expenses
  - B. Proper valuation of inventory
  - C. Inadequate provision for bad doubtful debts
  - D. None of the above
76. Under International Public Sector Accounting Standards (IPSAS), Ministries, Departments and Agencies (MDAs) financial statements should include which one of the following disclosures?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. All the above
77. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS for financial reporting
  - B. Kenya has adopted IPSAS for financial reporting for MDAs
  - C. IPSAS financial reporting require that MDAs uses the accrual basis of accounting
  - D. All the above
78. International Financial Reporting Standards (IFRS) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance on several reporting areas. Which of the following is not one of those reporting areas?
- A. Revenue recognition
  - B. Asset valuation
  - C. Value for money
  - D. Expenses
79. When planning an audit of an entity's financial statements under International Public Sector Accounting Standards (IPSAS), which of the following is **NOT** true about the external auditors 'initial concern'?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;
  - B. The entity's finance team have advanced knowledge and understanding of IPSAS and their applicability to the entity's financial statements
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. None of the above
80. According to the Association of Certified Fraud Examiners, the code of conduct for fraud examiners is basically based on several principles. Which of the following **NOT** one of those principles?
- A. Confidentiality
  - B. Integrity, independence, and objectivity
  - C. Profession skepticism
  - D. All the above
81. Which one of the following statements is **NOT** correct in regard to internal control environment in regard to accounting?
- A. Internal controls are the mechanisms, rules and procedures designed and implemented by the internal audit functions
  - B. Internal controls ensure the integrity of financial and accounting information
  - C. Internal controls environment enforces all other controls
  - D. All the above
82. Which of the following is a type of financial statement fraud?
- A. Omission of unearned revenue
  - B. Adequate provision for bad and doubtful debts
  - C. Failure to write off obsolete inventory



- D. All the above
83. Which of the following is **NOT** a type of financial statement fraud?
- A. Writing off bad debts
  - B. Concealed expenditure
  - C. Capitalisation of expenditure
  - D. None of the above
84. Procurement fraud is a high risk in the public sector. Which of the following exercise should auditors perform when auditing procurement for purposes of detecting procurement fraud?
- A. Forensic audit
  - B. Fraud audit
  - C. Value for money audit
  - D. None of the above
85. In which of the following scenarios would one hire a forensic accountant?
- A. Bankruptcy, Insolvency and reorganisation
  - B. Calculation in lawsuits
  - C. Business valuation
  - D. All of the above
86. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books at initial recognition is at \_\_\_\_\_.
- A. Revaluation value less cost to sell
  - B. Sales value less accumulated depreciation
  - C. Cost value plus accumulated depreciation
  - D. Historical cost
87. Haki Limited seeks to invite potential investors into the company. The managing director instructed the accountant to artificially increase the value of non-current assets so as to increase the company's net worth. What type of financial statement fraud was management perpetrating?
- A. Improper assets valuation
  - B. Improper assets impairment
  - C. Improper asset revaluation
  - D. Improper assets net adjustment
88. Which of the following statements is **NOT** correct in regard to recording of fictitious sales?
- A. Fictitious sales will result in fictitious receivables
  - B. Fictitious sales will result in inflated profits
  - C. Fictitious sales will result in understated current ratio
  - D. Fictitious sales will result in overstated current ratio
89. Which of the following is the root causes of financial statements fraud?
- A. Pressure, motivation or rationalisation
  - B. Pressure, opportunity and rationalisation
  - C. Pressure, coercion or rationalisation
  - D. Pressure, motivation or coercion
90. Cost of goods sold and corresponding sales should be recorded in the same accounting period. This accounting principle is called?
- A. Measuring concept
  - B. Double entry principle
  - C. Materiality principle
  - D. None of the above

91. Which of the following statement of cash flows activities is **NOT** a type of cash flows in from operating activities?
- A. Investment dividends.
  - B. Share capital
  - C. Cash from sale of an asset
  - D. All of the above.
92. Which of the following financial ratios can be used to measure an organisation's ability to meet its immediate daily financial operations?
- A. Asset turnover ratio
  - B. Current liability ratio
  - C. Cost of sales ratio
  - D. Quick ratio
93. Which of the following is **NOT** true in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS and IPSAS standards for financial reporting in the private and mining sector respectively
  - B. SMEs are not allowed to use IFRS standard for SME'S if they have public accountability.
  - C. Nairobi Securities Exchange requires companies trading in the Securities exchange with public accountability to use IFRS standard for SMEs
  - D. All the above
94. Which of the following statements is **TRUE** regarding the statement of financial position of listed companies?
- A. Non-current liabilities are generally presented on the statement of financial position in order of materiality.
  - B. Statements of financial position is usually manipulated by understating assets and overstating liabilities.
  - C. The statement of financial position shows the net worth of a company at a given financial reporting date
  - D. Revenues and goodwill accounts are recorded in statement of financial comprehensive income
95. Owners' equity can be affected by which of the following:
- A. Shareholders' funds, dividends and liabilities
  - B. Shareholders' funds, net income and loans
  - C. Net income, working capital and loans
  - D. Additional share premium, net income
96. Financial statements fraud will mostly take the form of
- A. Overstated assets less revenue
  - B. Overstated liabilities and expenses
  - C. Understated working capital
  - D. Understated revenue and overstated gross profit margin
97. Which of the following is **NOT** true in regard to recording of current liabilities?
- A. Deferral of expenses will not have any effect on the current liabilities
  - B. Failure to record payables would inflate the current ratio
  - C. Failure to record payables would inflate the profit
  - D. Failure to record payables would understate the current assets
98. Which of the following statements is NOT true in regard to forensic audit?
- A. The assumption of a forensic audit is that it might end up in court
  - B. The forensic audit should be conducted only on sufficient predication
  - C. The scope of a forensic audit should be wide enough to uncover most of the fraudulent activities
  - D. The scope of a forensic audit should be specific to the facts in issue
99. Which of the following is **NOT** true in regard to the characteristics of a good forensic auditor?
- A. A good listener
  - B. Patient
  - C. People's person
  - D. Partial

100. Which of the following is **NOT** true in regard to the characteristics of a good Forensic audit?
- A. The scope is specific to the facts in issue
  - B. Is commissioned by the right person
  - C. The forensic audit team has diverse knowledge and skills for the audit
  - D. The scope is general in nature
- .....

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**CFFE MODULE I**

**PAPER NO. 1: INTRODUCTION TO FORENSIC ACCOUNTING AND AUDIT**

**EXAMINATION**

**Answer ALL questions.**

**Time allowed: 3 Hours.**

1. Forensic Accounting is usually conducted for which one of the following purposes?
  - A. Litigation purposes
  - B. Investigation accounting for acquisition purposes
  - C. Investigation accounting for IPO (Initial Public Offering) purposes
  - D. All the above**
2. Which of the following is TRUE about Forensic fraud audit and fraud investigation or examination?
  - A. Both forensic audit and an investigation/ examinations are investigation assignments
  - B. Their objective of a forensic audit and an investigation is to collect evidence to prove or disapprove an allegation
  - C. Forensic audit or investigation is a methodology of resolving allegations from inception to disposition
  - D. All the above**
3. In addition to accounting skills and knowledge, a forensic accountant must know the difference between the following items
  - A. Opinion and conclusion
  - B. Audit evidence and factual evidence
  - C. Materiality and risk of fraud in relation to financial reporting
  - D. All the above**
4. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in which of the following areas?
  - A. Identification of accounting fraud and the need to work with an accountant in accounting related frauds**
  - B. In- depth knowledge of IFRS's and IAS
  - C. Knowledge in information system audits
  - D. None of the above
5. Which of the following is **NOT** true about GAAP and IFRS's?
  - A. Unlike IFRS's, GAAP does not require disclosures in financial statements**
  - B. IFRS's leave more room for interpretation
  - C. IFRS's require lengthy disclosures on financial statement
  - D. All the above

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6. Failure to apply the respective IFRS in recognizing revenue, improper deferral of costs and expenses, improper asset valuation and inadequate disclosure could result to:
- A. Misrepresentation of the financial position
  - B. Misrepresentation of the financial performance
  - C. Misleading financial reporting in relation to the going concern concept
  - D. All the above**
7. Kenya has already adopted both the IFRS and IPSAS in financial reporting in the private and public sector respectively
- A. True for both IFRS and IPSAS**
  - B. True for IFRS and not IPSAS
  - C. True for IPSAS and not IFRS
  - D. False for Both
8. Which of the following is ACCURATE in regard to inventory valuation in financial reporting?
- A. IFRS forbid the use of LIFO method of inventory valuation
  - B. The IAS standard requires inventories to measure at the lower of cost and net realizable value
  - C. Improper inventory valuation will result to overstated current assets and in return overstated current ratio.
  - D. All the above**
9. Which of the following is NOT an item shown in the company's statement of profit or loss and other comprehensive income?
- A. Revenue earned
  - B. Expenses incurred
  - C. Receivables and payables**
  - D. Cost of revenue
10. Which of the following statements is NOT true in regard to the statement of financial position?
- A. Current assets are generally presented first in order of liquidity on the statement of financial position in order of liquidity.
  - B. Non- current assets are recorded in the statement of financial position
  - C. The statement of financial position shows the financial performance of a company over a given financial period**
  - D. None of the above
11. Which of the following is NOT true about Payables, receivables, liabilities, inventory, cash and bank?
- A. The above items are recorded in the balance sheet and are used to calculate the current ratio to measure an organization's liquidity

- B. A current ratio that is too favorable is red flag of overstated receivables, inventories or understated current liabilities or both
  - C. **A current ratio that is too favorable is a confirmation that the organization is a going concern at least in the next financial year.**
  - D. A favorable current ratio, could also be a result of improper valuation of current assets and concealment of liabilities
12. Which of the following statement is TRUE about the profit or loss for the year:
- A. **Transferred to retained earnings in the statement of changes in equity**
  - B. Transferred to share premium in the statement of changes in equity
  - C. Transferred to revaluation reserve in the statement of changes in equity
  - D. Transferred to Non-controlling interest in the statement of changes in equity
13. Asset misappropriation of cash can be concealed by fraudulently balancing the equation. Which of the following actions would NOT balance the accounting equation?
- A. **Reducing an expense**
  - B. Increasing an expense
  - C. Decreasing a liability
  - D. All the above
14. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would help to conceal an asset misappropriation.
- A. Reducing revenue
  - B. Creating an expense
  - C. Decreasing a liability
  - D. **All the above**
15. Making a debit entry in any account would help to conceal an asset misappropriation. Which of the following entries in the following accounts can help to conceal an asset misappropriation?
- A. Increasing a liability
  - B. Reducing an asset
  - C. Increasing revenue
  - D. **None of the above**
16. Which of the following entries would lead to concealing misappropriation of cash
- A. Debit Operating expenses and credit payables account
  - B. Debit Payables account and credit operating expenses
  - C. **Debit Operating expenses and credit cash**
  - D. Debit Payables account and credit cash
17. Richard runs a medium construction company. He got a contract to be performed over a period of three years. Richard signed a contract for the full contract amount with the

client. By the end of Year 1 the company had performed and delivered only one third of the contract. Richard recorded the whole contract revenue amount in December of Year1. Which one of the following is TRUE about the recording of that financial transaction?

- A. The revenue was not recorded in accordance with the IFRS 15 standard of recognizing revenue.
- B. The transaction overstated the revenue earned during that financial year
- C. The transaction is an example of a financial statement fraud scheme related to revenue timing differences
- D. All of the above**

18. ABC company recorded substantial profit in the statement of profit and loss. The statement of cash flow recorded negative balances from the operating activities. Which of the following is a red flag of financial statement fraud?

- A. Recording of fictitious revenue
- B. Skimming of receivables
- C. Overstated revenue
- D. All the above**

19. Which of the following is the **NOT** correct about the accounting model?

- A.  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
- B. The accounting model is presented in the statement of profit and loss**
- C. The accounting model is presented in the balance sheet
- D. All the above

20. Which of the following could be used to balance the accounting equation to conceal cash misappropriation?

- A. Reducing revenue
- B. Reducing a liability
- C. Increasing another expense
- D. All of the above**

21. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine which of the following?

- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance.**
- B. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's liquidity
- C. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's net worth

- D. The statement of cash flows shows a company's financial performance and position at the end of a given period
22. In a scenario where the cash and cash equivalents at the end of the current and comparative year in the statement of cash flows does not agree to the cash and equivalent, in both public and private financial statements, which of the following statements is **NOT** correct in regard to the above
- A. This situation is evidence of cash asset misappropriation
  - B. This situation is a low risk of cash misappropriation
  - C. Both the internal and external auditor should only recommend that the organization balance the statement cash flow
  - D. All the above**
23. Which of the following appears on the statement of financial position of an organization?
- A. Revenue
  - B. Expenses
  - C. Gross profit
  - D. None of the above**
24. Joseph, a Certified Forensic Fraud Examiner, was hired to serve as an expert accounting witness in a case of alleged financial statement fraud. As part of her expert testimony, Joseph explained the requirements under International Financial Reporting Standards related to receivables. Those standards require that the receivables to be recognized at a fair value. During the investigation, the Certified Forensic Fraud Examiner found that some of the overdue receivable accounts with substantial amounts (meaning the amounts were material) were created from fictitious revenue and were still held in the receivables accounts and therefore were part of the end of year balance sheet items. Which of the following financial reporting concept would be fraudulently affected by the above scenario?
- A. Relevance
  - B. Materiality
  - C. Going concern**
  - D. Consistency
25. XYZ company received an anonymous tip alerting the company that there is a lot of fraud and corruption going on in the company especially in their procurement and finance department. The person receiving the tips is knowledgeable in fraud issues and confirmed the allegation to be reliable. The company has an Anti- Fraud Policy which requires the company to effectively respond to fraud allegations. Under the circumstances, which of the following assignment should the company commission
- A. Forensic accounting
  - B. Forensic audit**



- C. Special audit
  - D. Surprise audit
26. The Benford Law can be useful in detecting financial statement fraud. Which one of the following can the application of Benford Law help to detect?
- A. Multiple journal entries just below a limit threshold
  - B. Numerous journals used to perpetrate financial statement fraud
  - C. Correlation between Benford law and the first digits of journal entries or a set of data
  - D. All the above**
27. Which of the following statements is **TRUE** regarding the statement of changes in owners' equity?
- A. It is similar to the statement of retained earnings.
  - B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position.
  - C. It acts as the connecting link between the statement of financial position and the statement of profit or loss and other comprehensive income.
  - D. All the above**
28. Cost of goods sold or other direct expenses for generating revenue should be recorded the same accounting period. Failure to do so would result to which of the following?
- A. Overstated gross profit**
  - B. Overstated revenue
  - C. Understated net profit
  - D. None of the above
29. Under the IAS/IFRS, the proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at
- A. Revaluation value
  - B. Sales value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. None of the above**
30. If recording of an account does not follow the double entry principle, the accounts will not balance. However, accounts can be recorded using the double entry principle and balance fraudulently
- A. True**
  - B. False
31. Which of the following statements is **TRUE** with regard to gross margin?
- A. Gross margin is recorded in the statement of financial position
  - B. Gross margin is equal to sales less cost of goods sold

- C. Gross margin is equal to revenue less operating expenses  
**D. None of the above**
32. A fraudster wanted to conceal the removal of a liability from the books, which of the following actions would NOT balance the accounting equation?  
A. Reducing owners' equity  
B. Increasing an expense  
C. Increasing an asset  
**D. All the above**
33. The assumption that a business will continue at least in next financial year is reflected in the international accounting standards (IAS) accounting concept of:  
A. Consistency  
B. Comparability  
**C. Going concern**  
D. Liquidity
34. Which of the following is **NOT** a category of the statement of cash flow?  
A. Operating activities  
B. Investment activities  
**C. Strategic activities**  
D. All the above
35. Assets, liabilities, and revenue are all items that appear on a company's statement of financial position.  
A. True  
**B. False**
36. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?  
A. Relevance  
B. Going concern  
C. Materiality  
**D. None of the above**
37. Under IFRS 15, recognizing revenue for work that is to be performed in subsequent accounting periods, even though the work has already been contracted would result in  
A. Overstated revenue  
B. Overstated receivables  
C. Overstated current ratio  
**D. All the above**
38. The statement of changes in owners' equity acts as the connecting link between which two financial statements?

- A. Statement of financial position and statement of retained earnings
  - B. Statement of profit or loss and other comprehensive income and statement of Assets
  - C. Statement of profit or loss and other comprehensive income and statement of cash flows
  - D. None of the above**
39. Which of the following is **NOT** true about IFRS's in regard to financial reporting?
- A. IFRS's enhance transparency and trust in the global market
  - B. IFRS's helps to increase the net worth in the statement of financial position**
  - C. IFRS's financial reporting standards bring efficiency, accuracy and data transparency to serve public interest for growth and trust
  - D. All the above
40. Which of the following statements is **TRUE** regarding the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance.
  - B. The statement of cash flows reports a company's sources and uses of cash during the accounting period.
  - C. There are three types of cash flows; cash flows from operating activities, from investing activities and from financing activities.
  - D. All the above**
41. IFRS require that organizations disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year. Company ABC and XYZ were doing had business relationship. The two companies were controlled by the same directors. The directors of both companies did not disclose the business relationship. Which of the following is the type of fraud that was perpetrated by the companies?
- A. Financial statement fraud
  - B. Inadequate disclosure**
  - C. Accounting fraud
  - D. Related party transactions fraud
42. Which of the following financial ratios can be used to detect fictitious revenues and receivables?
- A. Asset turnover ratio
  - B. Current ratio
  - C. Receivables turnover ratio**
  - D. None of the above

43. Under IPSAS, MDAs financial statements should include, progress on auditor's recommendations, pending bills note and analysis, and IFMIS generated reports among others. Which of the following is **TRUE** in regard to failure to include the above reports?
- A. There is red flag of financial statement fraud
  - B. There is a high risk of financial statement fraud
  - C. There is a high risk of asset misappropriation
  - D. All the above**
44. Which of the following is **TRUE** in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS, IAS and IPSAS standards for financial reporting in the private and public sector respectively
  - B. SME's are required to use IFRS for SME'S
  - C. Nairobi Stock Exchange require companies trading in the stock exchange to use IFRS's
  - D. All the above**
45. International financial reporting standards(IFRS's) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance in the following areas of reporting
- A. Fair value measurement
  - B. Revenue recognition
  - C. Assets valuation
  - D. All the above**
46. IPSAS require that ministries include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements. Which of the following is **TRUE** about a scenario where the note and analysis on pending bills in the financial statements and the pending bills note in the notes to the financial statements differ.
- A. There is a red flag of concealed pending bills
  - B. There is a red flag of concealment of actuals versus budget
  - C. There is red flag of cash misappropriation
  - D. All the above**
47. When planning an audit of an entity's financial statements under IPSAS, the Which of the following is **NOT** one of the major concerns of the external auditors
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;
  - B. That the entity's finance team are all Certified Public accountant or its equivalent**
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable

- D. The entity's finance team has sufficient knowledge and understanding of IPSAS and their applicability to the entity's Financial Statements
48. Just like any other related professions like the Certified Fraud Examiners, forensic accountants and auditors are expected to observe which one of the following code of ethics?
- A. Confidentiality, commitment, diligence and lawfulness
  - B. Integrity, independence, and objectivity
  - C. Responsibility to the profession
  - D. All the above**
49. Which one of the following is **TRUE** about Internal controls environment in regard to accounting?
- A. Internal controls environment defines the organizations attitude towards compliance with internal controls.
  - B. Internal controls environment **creates** a foundation for all other controls
  - C. Internal controls environment enforces the basic hard controls
  - D. All the above**
50. Which of the following is TRUE about risk based audit?
- A. The auditor should prioritize the audit according to the level of the risk, i.e. high to low approach
  - B. The auditor should be knowledgeable in fraud risk identification, assessment and response to fraud risks
  - C. To detect fraud in high risk areas, the auditor use tests and procedures specifically designed to detect fraud
  - D. All the above**
51. Forensic Accounting is always conducted for purposes of investigation and litigation of accounting fraud
- A. True
  - B. False**
52. Forensic fraud audit and fraud investigation or examination terminologies can be used interchangeably
- A. True**
  - B. False
53. In addition to accounting skills and knowledge, a forensic accountant must be knowledgeable in the following areas:
- A. Accounting and financial statement fraud schemes
  - B. Forensic/Investigation reports

- C. Law related to fraud and the rule of evidence
- D. All the above**

54. Forensic auditors do not necessarily have to be accountants; however, they must be knowledgeable in which of the following areas?

- A. Basic accounting concepts
- B. Identification of fraudulent financial transactions
- C. Financial statement fraud schemes
- D. All the above**

55. Which of the following is **TRUE** about GAAP AND IFRS's?

- A. GAAP is rule based while IFRS's are principle based
- B. IFRS's leave more room for interpretation
- C. IFRS's require lengthy disclosures on financial statement
- D. All the above**

56. Failure to apply the respective IFRS in recognizing revenue, improper deferral of costs and expenses, improper asset valuation and inadequate disclosure could result to:

- A. Misrepresentation of the financial position
- B. Misrepresentation of the financial performance
- C. Claims of fraudulent financial reporting
- D. All the above**

57. Generally Accepted Accounting Principles are currently used only in the USA

- A. True**
- B. False

58. ABC Corp. has always used the first-in, first-out (FIFO) inventory valuation method when calculating its cost of goods sold. This is industry standard for inventory valuation method for ABC. If management used another method that will result to reducing the cost of goods, which of the following **BEST** describes the outcome of this inventory valuation method

- A. The gross profit margin would be overstated
- B. The net income would be overstated
- C. The closing stock would overstated
- D. All the above**

59. Which of the following is the best description of what is shown on a company's statement of profit or loss and other comprehensive income?
- A. The company's financial position at a specific point in time
  - B. The changes in the total owners' equity amount listed on the statement of financial position
  - C. How much profit (or loss) the company earned over a particular period of time**
  - D. The company's sources and uses of cash during a particular period of time
60. Which of the following statements is TRUE regarding the statement of financial position?
- A. Assets are generally presented on the statement of financial position in order of liquidity.**
  - B. Statements of financial position are usually manipulated by understating assets and overstating liabilities.
  - C. The statement of financial position shows the financial performance of a company over a given financial period
  - D. Revenues and expenses accounts are recorded in statement of financial performance
61. Payables, receivables, retained earnings, and accumulated depreciation are recorded in which of the following financial statement
- A. Statement of changes in owners' equity
  - B. Statement of financial position**
  - C. Statement of cash flows
  - D. Statement of profit or loss and other comprehensive income
62. At the end of each financial year, the accounts reflected on the statement of profit or loss and other comprehensive income are reduced to a zero balance.
- A. True**
  - B. False
63. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would **NOT** result in a balanced accounting equation?
- A. Reducing owners' equity
  - B. Creating an expense
  - C. Decreasing a liability
  - D. Reducing an asset**
64. If a fraudster wanted to conceal the misappropriation of cash, which of the following actions would help to conceal an asset misappropriation.
- A. Increase an asset
  - B. Creating an expense
  - C. Decreasing a liability

**D. All the above**

65. Making a debit entry in any account would help to conceal an asset misappropriation. Which of the following entries in the following accounts can help to conceal an asset misappropriation?

- A. Increasing a liability
- B. Reducing an asset
- C. Reducing an expense
- D. None of the above**

66. Recording a credit in any account cannot help in concealing an asset misappropriation because the accounting equation will not balance

- A. True**
- B. False

67. Jonathan runs an IT company. He uses accrual basis of accounting. In December of Year 1, Jonathan signed a contract with a client. The client paid the full amount of the contract in December of Year 1 though the work was to be performed the following year. Jonathan recorded the contract revenue in December of Year 1. Which one of the following is TRUE about the recording of that financial transaction?

- A. The revenue should be recorded in December when Jonathan received the cash, and the expenses should be recorded the following year when the work is performed.
- B. Both the revenue and expenses should be recorded in December.
- C. This transaction will not misrepresent the revenue earned during that financial year
- D. None of the above**

68. ABC company recorded substantial profit in the profit and loss account. The cash flow statement recorded negative balances from the operating activities. This is red flag of which of the following financial statement fraud?

- A. Recording of fictitious revenue
- B. Skimming of receivables
- C. Overstated revenue
- D. All the above**

69. Which of the following is the correct accounting model?

- A. Assets + Liabilities = Owners' Equity
- B. Assets = Liabilities + Owners' Equity**
- C. Assets = Liabilities – Owners' Equity
- D. None of the above



70. Which of the following could be used to balance the accounting equation to conceal cash misappropriation?
- A. Reducing revenue
  - B. Reducing a liability
  - C. Increasing another asset
  - D. All of the above**
71. Which of the following statements is TRUE with regard to the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance.**
  - B. The statement of cash flows is not always necessary because most companies operate under cash-basis accounting rather than accrual accounting.
  - C. There are four types of cash flows: cash flows from operating activities, from investing activities, from financing activities and from payment activities.
  - D. The statement of cash flows shows a company's financial performance and position at the end of a given period
72. In a scenario where the cash and cash equivalents at the end of the current and comparative year in the statement of cash flow does not agree to the cash and cash equivalent, in both public and private financial statements, which of the following statements is **CORRECT** in regard to the above situation?
- A. This situation is a red flag of cash asset misappropriation
  - B. This situation is a high risk of cash misappropriation
  - C. Both the internal and external audit should recommend further investigation on possible misappropriation of cash
  - D. All the above**
73. Which of the following appears on the statement of profit and loss?
- A. Receivables
  - B. Revenues**
  - C. Liabilities
  - D. Expenses
74. Smith, a Certified Forensic Fraud Examiner, was hired to serve as an expert accounting witness in a case of alleged financial statement fraud. As part of her expert testimony, Smith explained the requirements under International Financial Reporting Standards. Those standards require that the financial statements should be complete, neutral, and free from fraud or error. This concept is related to which of the following?
- A. Relevance

- B. Comparability
- C. Faithful representation**
- D. Consistency

75. A major company in the construction industry wants to purchase another similar company. It would be advisable that the acquiring company conduct which of the following assignments before acquiring the company

- A. Forensic accounting**
- B. Forensic audit
- C. Fraud investigation
- D. All the above

76. The Benford Law can be useful in detecting financial statement fraud. Which one of the following can the application of Benford Law help to detect?

- A. Multiple journal entries just below a limit threshold
- B. Numerous journals used to perpetrate financial statement fraud
- C. Correlation between Benford law and the first digits of journal entries or a set of data
- D. All the above**

77. Which of the following statements is NOT true regarding the statement of changes in owners' equity?

- A. Changes in owners' equity is similar to the statement of retained earnings.
- B. It shows how amounts on the statement of profit or loss and other comprehensive income flow through to the statement of financial position.
- C. Owners' equity acts as a link between the statement of financial position and the statement of profit or loss and other comprehensive income.
- D. It shows the company's major liabilities over the financial year.**

78. As a sale is made, the appropriate charges for cost of goods sold or other expenses directly corresponding to the sale should be recorded in the same accounting period. This accounting principle is called?

- A. Matching Principle**
- B. Double entry principle
- C. Comparability principle
- D. None of the above

79. Under the IAS/IFRS The proper basis for recording a piece of equipment, vehicle, building or land on a company's books is at

- A. Historical cost or revaluation amount less accumulated depreciation**
  - B. Sales value less accumulated depreciation
  - C. Current market value less accumulated depreciation
  - D. Revaluation value
- 80. In double-entry accounting, every transaction creates two accounts, where you make a debit entry in one account and a credit in the other
  - A. True**
  - B. False
- 81. Which of the following statements is TRUE with regard to gross margin?
  - A. Gross margin is the difference between cost of sales and operating costs
  - B. Gross margin is equal to net sales less cost of goods sold**
  - C. Gross margin is equal to revenue less operating expenses
  - D. None of the above
- 82. If a fraudster wanted to conceal the removal of a liability from the books, which of the following actions would NOT balance the accounting equation?
  - A. Increasing owners' equity
  - B. Increasing revenue
  - C. Increasing an asset**
  - D. Increasing a different liability
- 83. The assumption that a business will continue at least in next financial year is reflected in the international accounting standards (IAS) accounting concept of:
  - A. Objective evidence
  - B. Comparability
  - C. Relevance
  - D. Going concern**
- 84. Which of the following is a category of the cash flow statement?
  - A. Operating activities
  - B. Investment activities
  - C. Financing activities
  - D. All the above**
- 85. Assets, liabilities, and owners' equity are all items that appear on a company's statement of financial position.
  - A. True**
  - B. False

86. Which accounting principle requires corresponding expenses and revenue to be recorded in the same accounting period?
- A. Comparability
  - B. Going concern
  - C. Faithful representation
  - D. None of the above**
87. Under IFRS 15, recognizing revenue for work that is to be performed in subsequent accounting periods, even though the work has already been contracted would result in
- A. Fraudulent revenue recognition**
  - B. Erroneous revenue recognition
  - C. Fraudulent expenses recognition
  - D. None of the above
88. The statement of changes in owners' equity acts as the connecting link between which two financial statements?
- A. Statement of financial position and statement of retained earnings
  - B. Statement of profit or loss and other comprehensive income and statement of financial position**
  - C. Statement of profit or loss and other comprehensive income and statement of cash flows
  - D. Statement of cash flows and statement of financial position
89. Which of the following is **TRUE** about IFRS's in regard to financial reporting?
- A. IFRS's enhance transparency and trust in the global market
  - B. IFRS's foster sustainability of the world economy
  - C. IFRS's financial reporting standards bring efficiency, accuracy and data transparency to serve public interest for growth and trust
  - D. All the above**
90. Which of the following statements is **NOT** true regarding the statement of cash flows?
- A. The statement of cash flows is often used in tandem with the statement of profit or loss and other comprehensive income to determine a company's true financial performance.
  - B. The statement of cash flows reports a company's sources and uses of cash during the accounting period.
  - C. There are three types of cash flows; cash flows from operating activities, from investing activities and from financing activities.
  - D. The statement of cash flows shows a company's financial position and performance at a specific point in time.**

91. Failure to disclose matters related to doubt about a company's ability to fulfil its financial obligations at least in the next financial year is a type of which of the following financial statement fraud
- A. Revenue recognition fraud
  - B. Material misrepresentation fraud
  - C. Inadequate disclosures**
  - D. None of the above
92. Which of the following financial ratios can be used to measure an organization's ability to meet its immediate financial obligations?
- A. Asset turnover ratio
  - B. Current ratio
  - C. Quick/acid ratio**
  - D. None of the above
93. Under IPSAS, MDAs financial statements should include which one of the following disclosures?
- A. Progress on auditor's recommendations
  - B. Pending bills note and analysis
  - C. IFMIS generated reports
  - D. All the above**
94. The qualitative financial reporting characteristic of comparability prohibits any change in an accounting principle previously employed.
- A. True
  - B. False**
95. Which of the following is TRUE in regard to financial reporting in Kenya?
- A. Kenya has adopted IFRS a standard for financial reporting
  - B. SME's are required to uses IFRS for SME'S
  - C. Nairobi Stock Exchange require companies trading in the stock exchange to use IFRS's
  - D. All the above**
96. International financial reporting standards(IFRS's) provides financial reporting standards to prevent misrepresentation of financial statements. Those standards have established guidance in the following areas of reporting
- A. Fair value measurement
  - B. Revenue recognition
  - C. Asset valuation
  - D. All the above**

97. IPSAS require that ministries include a note and analysis on pending bills in the financial statements and the listing included should agree to the pending bills note in the notes to the financial statements.
- A. **True**
  - B. False
98. When planning an audit of an entity's financial statements under IPSAS, which of the following is NOT true about the external auditors 'initial concern?
- A. Acceptable financial and other information systems are in place, along with arrangements to provide annual assurance on the reliability of such systems;
  - B. **The entity's finance team have basic knowledge and understanding of IPSAS and their applicability to the entity's financial statements**
  - C. The entity has arrangements in place to produce reliable financial statements, along with adequate supporting working papers, to an acceptable timetable
  - D. **All the above**
99. According to the institute of certified forensic accountants, the code of conduct for forensic accountants is basically based on three principles. Which of the following is one of those principles?
- A. Meeting client's requirements
  - B. Integrity, independence, and objectivity
  - C. Responsibility to the profession
  - D. **All the above**
100. Which one of the following is **TRUE** about Internal controls environment in regard to accounting?
- A. Internal controls are the mechanisms, rules and procedures implemented by a company
  - B. Internal controls ensure the integrity of financial and accounting information
  - C. Internal controls promote accountability and prevent fraud
  - D. **All the above**