New York University
Stern School of Business
Fall 2006
B10.3310.10
Forensic Accounting and Financial Statement Fraud
Room 5-75 KMC

Professor: Seymour Jones

Course Description:

The objective of the course is to impart a detailed understanding of forensic accounting with particular emphasis on the methodologies of financial statement fraud. The course is designed to demonstrate the various aspects of fraud, i.e., fraudulent financial reporting, identifying fraud schemes, including computer fraud and methods of concealment, as well as the analytical techniques in uncovering fraud and its prevention through effective internal control systems. The course also includes an analysis of the general techniques used in working in litigation support services. The course is of particular interest to the accounting profession, the world of finance and to business in general. The course content has also become of critical interest to regulators and lawmakers because of the notoriety of a series of recent financial scandals which have affected the entire business community.

The course will also review the new institutional structures that have been put in place recently by lawmakers and the accounting profession to deal with fraud and its prevention, i.e., the Sarbanes-Oxley Act and self-regulating measures adopted by the accounting profession.

Method of Instruction:

This course will use a variety of teaching methods including lectures, readings, case assignments and discussion, and statement analysis.

Grading Policy:

Your course grade will reflect the following emphases:

- Class assignments and participation: 20%
- Mid-term examination: 40%
- Final examination: 40%

Required References:

FORENSIC ACCOUNTING AND FINANCIAL STATEMENT FRAUD
Fall 2006

Topical Outline

9/18/06  (M 6 to 9 P.M.)

(Read Chapter 1 Sections 1001 to 1051)

9/25/06  (M 6 to 9 P.M.)
Session 2. Fraud schemes and earnings management. Methods of concealment: withholding evidence, misrepresentations, false documents, collusion, top management overriding internal control systems. (ZZZ Best Case)

(Read Chapter 3)

10/9/06  (M 6 to 9 P.M.)
Session 3. Uncovering accounting fraud: professional skepticism, investigative unpredictability, corroboration, inquiry, observation and investigation of personal and related party transactions, analytics, key financial statement ratios. Underlying evidence vs. corroborating evidence. (Furniture Case)

(Read Chapter 4, Sections 4001-4041)

10/16/06  (M 6 to 9 P.M.)
Session 4. Identifying fraud schemes:

(i) premature or fictitious revenue recognition: trends, side letters, channel stuffing, bill and hold, contingent sales, sham transactions, cut-off manipulation;

(ii) overstatement of assets: fictitious inventory, analytical factors, manipulation of inventory counts, improper valuation of net realizable values, improper capitalization of repairs and maintenance, related party transactions (SPE’s), fictitious investments and/or improper valuation of investments.

(iii) understating liabilities: increased quick and working capital ratios, increase in inventory without increase in accounts payable, off balance sheet entities (SPE’s, guarantees of debt of off balance sheet entities), unexplained gross profit improvement;
misappropriation of assets: unrecorded sales, fraudulent disbursements (improper controls), theft of company checks, payroll fraud, theft of inventory, excessive write-downs and related tax implications.

(Read Chapter 4, Sections 4051-4241 and Chapters 5 and 6)

10/23/06 (M 6 to 9 P.M.)
Session 5. Identifying fraud schemes, continued; anatomy of a fraud investigation (Guest speaker, Ted Martens)

10/30/06 (M 6 to 9 P.M.)

(Read Chapters 8 and 9)

11/6/06 (M 6 to 9 P.M.)
Session 7. MIDTERM

11/13/06 (M 6 to 9 P.M.)
Session 8. Litigation support (continued)

(Read Chapter 10 and New Jersey Law article distributed)

11/20/06 (M 6 to 9 P.M.)
Session 9. Money laundering and the bank secrecy act: current reporting requirements by regulators. (Guest speaker, Joe Peters)

(Read Chapter 7)

11/27/06 (M 6 to 9 P.M.)

(Read materials distributed)

12/4/06 (M 6 to 9 P.M.)
Session 11. Computer fraud (Guest speaker, Dave Berg)

12/11/06 (M 6 to 9 P.M.)
Session 12. FINAL EXAM