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Certified Fraud Examiner

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Version Demo

Total Demo Questions: 30

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Topic Break Down

Topic	No. of Questions
Topic 1, Financial Transactions and Fraud Schemes	172
Topic 2, Law	16
Topic 3, Investigation	15
Topic 4, Fraud Prevention and Deterrence	106
Total	309

QUESTION NO: 1

According to the 2020 Report to the Nations.___________schemes ate the MOST COMMON form of occupational fraud,

while_________schemes are the MOST COSTLY form of occupational fraud.

A. Asset misappropriation; corruption

B. Corruption, asset misappropriation

C. Financial statement fraud: corruption

D. Asset misappropriation: financial statement fraud

ANSWER: D

Explanation:

Asset misappropriation: financial statement fraud is correct. ACFE's 2020 *Report to the Nations* classifies occupational fraud into asset misappropriation, corruption, and financial statement fraud. Asset misappropriation was by far the most frequently reported category, occurring in 86% of the cases studied. These schemes involve the theft or misuse of an organization's resources, such as cash theft, fraudulent disbursements, or misuse of inventory and other assets. Financial statement fraud was much less common, appearing in 10% of cases, but it produced the greatest median loss: $954,000 per case. This reflects the potentially broad impact of deliberately misstating financial information, including overstating revenues or assets and understating expenses or liabilities. Accordingly, when the question distinguishes between frequency and financial impact under the 2020 ACFE data, asset misappropriation is the most common scheme category and financial statement fraud is the most costly category. The ACFE's report and its occupational-fraud resources describe these categories and the associated frequency and loss data: ACFE 2020 Report to the Nations and ACFE: What Is Occupational Fraud?.

QUESTION NO: 2

____________ is a summary of the account balances carried in a ledger.

A. Balance sheet

B. Income statement

C. Financial statement

D. General journal

E. Trial balance

ANSWER: E

Explanation:

A trial balance is a summary listing of the ending debit or credit balances in all general-ledger accounts at a particular point in time. After transactions have been recorded in journals and posted to the ledger, the organization prepares this listing to bring the account balances together in one place. Its key control purpose is to test the mechanical equality of total debits and total credits, which reflects the double-entry accounting system. A balanced trial balance provides an important checkpoint before account balances are adjusted and used to prepare formal financial statements. In a fraud examination context, trial balances can also give an examiner a concise starting point for understanding the accounts maintained by an entity, identifying material or unusual balances, and tracing reported amounts back to underlying ledger activity. The trial balance is an internal accounting workpaper rather than a financial statement intended to report the entity's financial position or operating performance to external users. OpenStax describes the trial balance as a listing of accounts and their balances used to verify debit-credit equality: OpenStax, Prepare a Trial Balance. The U.S. Small Business Administration also outlines the role of a trial balance in the accounting cycle: SBA, Manage Your Finances.

QUESTION NO: 3

By removing a tangible asset from the business (a debit), the books will be ___________ by the exact amount of the tangible asset misappropriated.

A. Journal Entries

B. Out-of-balance

C. False debits

D. None of all

ANSWER: B

Explanation:

Out-of-balance is correct because an unrecorded removal of a tangible business asset creates a discrepancy equal to the amount taken. The accounting records continue to report that the asset is present, while the actual assets available to the organization have been reduced. In fraud-examination terms, this difference must be concealed if the perpetrator wants records, reconciliations, or physical counts to appear consistent. A proper accounting system relies on complete recording of transactions and on periodic reconciliation of book records to physical assets and supporting evidence. When an asset is misappropriated without an authorized, corresponding accounting entry, the shortage is exposed as the difference between recorded and actual balances. The amount of the discrepancy is the value of the asset removed. This principle is central to detecting asset misappropriation: compare ledger balances with physical inventory, cash on hand, custody records, and other independent evidence. ACFE materials identify asset misappropriation as a major fraud category and emphasize controls that detect shortages and inconsistencies in asset records. See the ACFE overview of fraud and the ACFE Report to the Nations.

QUESTION NO: 4

__________ can be defined as conduct detrimental to the organization and to the employee.

A. Employee deviance

B. Employee theft

C. Employee fraud

D. All of the above

ANSWER: A

Explanation:

Employee deviance is correct because it is the broad workplace-behavior concept that encompasses voluntary conduct violating significant organizational norms and creating harm for the organization, its members, or both. In the fraud-examination context, this framing is useful because harmful employee conduct is not limited to a single financial act; it can include behaviors that undermine organizational assets, operations, rules, workplace relationships, and the employee's own standing or well-being. The definition specifically captures the dual-impact idea in the question: the conduct is detrimental to the employer while also being detrimental to the person engaging in it, such as through disciplinary consequences, damaged professional reputation, loss of employment, or exposure to investigation. Foundational workplace-deviance research describes the construct as voluntary behavior that violates organizational norms and threatens the well-being of an organization, its members, or both. This makes employee deviance the appropriate umbrella term for the stated definition. Fraud examiners should recognize this broader behavioral context when assessing risk indicators and designing prevention measures, consistent with the ACFE's emphasis on organizational anti-fraud controls and awareness. See Robinson and Bennett's workplace deviance framework and the ACFE 2024 Report to the Nations.

QUESTION NO: 5

Rosie, a Certified Fraud Examiner (CFE), conducted a fraud examination for her company that led to a confession of guilt from Dean. Which of the following statements in Rosie ' s verbal report to management would violate the ACFE Code of Professional Ethics?

A. " The evidence does not support Dean ' s confession. "

B. " Dean is guilty of embezzlement. "

C. " Dean ' s confession is supported by the evidence. "

D. " Dean confessed to embezzlement. "

ANSWER: B

Explanation:

“Dean is guilty of embezzlement.” violates the ACFE Code of Professional Ethics because a CFE must not state an opinion regarding the guilt or innocence of any person or entity. Determining guilt is a legal finding reserved for a court or other authorized adjudicative body, rather than a conclusion that a fraud examiner may announce in a report to management. Even when a subject has confessed, the examiner’s professional role is to communicate factual findings objectively: for example, that the person made a confession, what the confession said, and whether independent evidence corroborates it. A confession can be an important item of evidence, but it does not authorize the CFE to pronounce the subject legally guilty. This ethical restriction protects the examiner’s objectivity, keeps the report grounded in evidence, and avoids usurping the role of the justice system. The ACFE’s Code of Professional Ethics expressly provides that members shall not express an opinion as to the guilt or innocence of any person or entity. See the ACFE Code of Professional Ethics and the ACFE’s Fraud Examiners Manual for guidance on reporting examination findings objectively.

QUESTION NO: 6

Fraud risks related to regulatory and legal misconduct include all of the following EXCEPT:

A. Fraudulent customer payments

B. Anti-competitive practices

C. Insider trading

D. Conflicts of interest

ANSWER: A

Explanation:

Fraudulent customer payments is the exception because it describes a transaction-level scheme involving improper, fabricated, diverted, or otherwise manipulated payments associated with customers. The defining feature is the misuse of a payment process or funds, rather than conduct whose primary fraud-risk characteristic is a breach of legal or regulatory obligations. In a fraud risk assessment, risks should be categorized according to the nature of the conduct, the affected process, applicable requirements, and the potential impact on the organization. This classification helps management assign the appropriate risk owner and design targeted preventive and detective controls, such as payment authorization, segregation of duties, customer-account reconciliation, exception reporting, and investigation procedures. The ACFE and COSO fraud risk management framework emphasizes identifying fraud schemes in a structured manner and evaluating the controls that address the specific scheme and its underlying opportunity. Properly distinguishing payment-related fraud risks from legal and regulatory misconduct risks improves the completeness of the fraud risk register and supports more meaningful monitoring and response activities. See the ACFE’s fraud risk management resources at ACFE Fraud Risk Tools and COSO Resources and COSO’s Guidance on Internal Control.

QUESTION NO: 7

Which of the following is FALSE regarding the process of defining the objective of the fraud risk management program?

A. Management should examine previous fraud occurrences to determine how the ideal fraud risk management program would have prevented them.

B. Management must balance the investment in anti-fraud controls with the benefit of those controls and the amount of risk it is willing to accept.

C. Management must assign a quantitative measure to its risk appetite so that it can accurately measure the fraud risk management program's effectiveness.

D. Management should tailor the detailed objectives of the fraud risk management program to the organization's specific needs and goals.

ANSWER: C

Explanation:

"Management must assign a quantitative measure to its risk appetite so that it can accurately measure the fraud risk management program's effectiveness" is the false statement. In establishing a fraud risk management program, management and those charged with governance should define the program's objectives in a manner that reflects the organization's mission, operations, fraud-risk profile, resources, and tolerance for risk. Risk appetite can be expressed qualitatively, quantitatively, or through a combination of both. A numerical threshold might be useful in some environments, but it is not a universal requirement and may not capture important fraud-related considerations, such as reputational damage, regulatory exposure, ethical expectations, or the risk of management override. Program effectiveness is instead evaluated through ongoing fraud risk assessment, the design and operation of preventive and detective controls, reporting and investigation processes, monitoring, and periodic reassessment. The COSO/ACFE fraud risk management guidance emphasizes a tailored, principles-based process rather than requiring every organization to quantify risk appetite. See the COSO/ACFE Fraud Risk Management Guide executive summary and ACFE's fraud risk management resources.

QUESTION NO: 8

As part of its anti-fraud program, Elm Company is outlining the responsibilities of different stakeholders. Who is ultimately responsible for ensuring the effectiveness of the organization ' s anti-fraud program?

A. Forensic accountants

B. Management

C. The compliance function

D. Internal auditors

ANSWER: B

Explanation:

Management is ultimately responsible for ensuring the effectiveness of an organization's anti-fraud program because it has responsibility for designing, implementing, operating, and monitoring the organization's day-to-day control environment. An effective program is not a stand-alone compliance activity; it must be integrated into operations through fraud-risk assessment, appropriate preventive and detective controls, reporting mechanisms, investigations, remediation, and communication of ethical expectations. Management also must assign ownership, provide adequate resources, respond to identified weaknesses, and evaluate whether controls continue to address changing fraud risks. These responsibilities make management accountable for translating governance expectations into an operating anti-fraud framework. The board of directors provides critical oversight, including challenging management and monitoring the organization's fraud-risk management, but management operates the program and is accountable for its effectiveness. This allocation is consistent with the COSO Internal Control—Integrated Framework, under which management establishes and maintains internal control and considers fraud risk as part of risk assessment. See COSO's Internal Control—Integrated Framework guidance and the ACFE's anti-fraud resources.

QUESTION NO: 9

Occupational fraud and abuse is a (an) __________ of doing business, in much the same way that we pay expenses for electricity, taxes and wages.

A. Equity

B. Balance sheet

C. Expense

D. Financial record

ANSWER: C

Explanation:

Expense is correct because occupational fraud and abuse creates a measurable economic cost for organizations, reducing profitability and diverting resources that otherwise could support operations, investment, employee compensation, or growth. In fraud examination, this harm is often described as a cost of doing business: although it is not a legitimate or desired operating cost, it is an economic burden organizations must anticipate, assess, and mitigate through effective anti-fraud controls. Treating fraud risk as a business expense underscores why management should devote appropriate resources to prevention, detection, reporting mechanisms, and investigation. The Association of Certified Fraud Examiners describes occupational fraud as fraud committed by individuals against the organizations that employ them and documents its substantial financial impact in its recurring fraud studies. Its Fraud 101: What Is Fraud? resource explains the nature of occupational fraud, while the ACFE 2024 Report to the Nations provides research on the losses and organizational consequences associated with such misconduct. Therefore, the sentence correctly characterizes occupational fraud and abuse as an expense of doing business.

QUESTION NO: 10

According to accounting principles, ________ and ________ should be recorded or atched in the same accounting period; failing to do so violates the matching principle of AAP.

A. Revenue and corresponding expenses

B. Revenue and Income statement

C. Income statement and Long-term contracts

D. Capitalized expenses and Liabilities

ANSWER: A

Explanation:

Revenue and corresponding expenses is correct because the matching principle requires an entity to recognize the costs incurred to earn revenue in the same accounting period in which that revenue is recognized. This produces a meaningful measure of periodic profit: revenue reported for a period is paired with the related expenses, rather than having those costs deferred to or recognized in an unrelated period. For example, when a company records sales revenue, it should also recognize the cost of inventory sold and any other directly associated costs in that reporting period. The principle supports accurate financial reporting by ensuring that income statements reflect the economic activity that generated the reported revenue and the resources consumed to generate it. In fraud examination, improper timing of either revenue or related expenses can materially distort reported earnings, conceal declining performance, or create misleading trends. The Financial Accounting Standards Board's conceptual framework explains that recognizing items in financial statements should provide relevant, faithfully represented information about an entity's financial performance and financial position. The U.S. Securities and Exchange Commission likewise emphasizes that registrants must prepare financial statements in accordance with applicable accounting principles. See the FASB Conceptual Framework and the SEC Financial Reporting Manual resources.

QUESTION NO: 11

The most common method for billing scheme is:

A. Register

B. Tips

C. Accident

D. None of the above

E. Shell company

ANSWER: E

Explanation:

Shell company schemes are the most common billing-scheme method because they give the fraudster direct control over the vendor that receives payment. In this arrangement, an employee creates or controls a fictitious business, submits invoices for goods or services that were not provided, and causes the victim organization to pay those invoices. The payments are then diverted to the fraudster or a related party. This method can be sustained over time when the shell company appears legitimate in vendor records and invoices are supported by seemingly ordinary purchase documentation. Effective prevention and detection therefore include vendor due diligence, independent verification of vendor addresses and ownership, review of duplicate or suspicious vendor data, segregation of purchasing and payment duties, and scrutiny of invoices that lack evidence of actual receipt of goods or services. The ACFE identifies billing schemes as a form of corruption-free asset misappropriation involving false or inflated vendor invoices, and shell companies are a central billing-scheme typology. See the ACFE's 2024 Report to the Nations and its overview of occupational fraud.

QUESTION NO: 12

Employees should be kept unaware that management is watching for lifestyle and behavior changes In staff members that might indicate fraud.

A. True

B. False

ANSWER: B

Explanation:

False is correct because an effective fraud-prevention program seeks to increase employees' perception that fraud will be detected. Management may appropriately communicate that it maintains controls, takes concerns seriously, and monitors relevant workplace indicators in a lawful, consistent, and respectful manner. Such transparency supports a strong anti-fraud culture and makes clear that the organization actively protects its assets and investigates credible red flags. Behavioral or lifestyle changes do not establish that a person has committed fraud; rather, they can be indicators requiring careful, objective follow-up under established policies. Communicating the organization's commitment to detection and reporting can also encourage employees to use reporting mechanisms when they observe suspicious conduct. The Association of Certified Fraud Examiners identifies proactive anti-fraud controls, including fraud-awareness efforts and reporting mechanisms, as important components of fraud risk management. These measures should be administered fairly, with appropriate confidentiality and respect for privacy, rather than as undisclosed or arbitrary scrutiny. See the ACFE's fraud risk tools and its anti-fraud resource guide for prevention and detection guidance.

QUESTION NO: 13

To reinforce an anti-fraud culture, it is BEST for an organization ' s management to:

A. Use a checklist of initiatives to ensure that all the elements of a strong corporate culture are in place.

B. Require senior leaders to follow the same ethics policies that are in place for all staff-level employees.

C. Discourage employees from questioning their immediate supervisor ' s actions or decisions if they have concerns.

D. Discipline any employees who publicly express their frustration regarding organizational policies.

ANSWER: B

Explanation:

Require senior leaders to follow the same ethics policies that are in place for all staff-level employees. An anti-fraud culture depends on a credible tone at the top: employees evaluate the organization's real values by observing whether executives and managers comply with the standards they communicate. When senior leaders are visibly subject to—and consistently comply with—the same code of conduct, reporting expectations, conflict-of-interest rules, and disciplinary framework as other personnel, they demonstrate that ethical conduct is a nonnegotiable organizational expectation rather than a rule applicable only to lower-level staff. This consistency promotes trust in management, supports employees' willingness to raise concerns, and strengthens the perceived fairness and legitimacy of the organization's fraud-risk-management program. ACFE guidance identifies a strong anti-fraud culture and management's active commitment to ethical behavior as fundamental preventive measures. The organization should therefore ensure that its ethical standards are applied uniformly, while recognizing that leaders have heightened responsibility because their conduct sets the behavioral example for the workforce. See the ACFE's Fraud Prevention Resource Center and its 2024 Report to the Nations for guidance on organizational culture, ethical leadership, and fraud prevention.

QUESTION NO: 14

Perceived certainty of detection is directly related to employee theft for respondents in all industry sectors, that is the stronger the perception that theft would be detected, the more the likelihood that the employee would engage in deviant behavior.

A. True

B. False

ANSWER: B

Explanation:

False is correct because the statement reverses the expected deterrent relationship. In occupational-fraud prevention, an employee's belief that misconduct is likely to be discovered generally reduces, rather than increases, the likelihood of theft or other deviant conduct. This is the practical significance of detection-focused controls: visible management review, reconciliations, audit activity, reporting channels, and timely investigation can raise employees' perceived certainty that wrongdoing will be identified. The relevant factor is not merely whether an organization has controls on paper, but whether personnel believe those controls operate consistently and that suspicious activity will receive attention. ACFE materials emphasize that proactive anti-fraud controls and detection mechanisms are central to reducing occupational-fraud risk. More broadly, deterrence research recognizes certainty of detection as an important influence on behavior; perceived likelihood of being caught can discourage offending. Therefore, a stronger perception that theft would be detected is associated with a lower likelihood of engaging in employee theft, which makes the assertion in the question false. See the ACFE 2024 Report to the Nations and the National Institute of Justice's overview of deterrence.

QUESTION NO: 15

____________ is a process by which a bookkeeper records all transactions and can adjust the books.

A. Journal Entries

B. Accounting Cycle

C. Financial statement

D. None of all

ANSWER: B

Explanation:

The **Accounting Cycle** is correct because it is the structured, recurring process used to capture a business's financial activity and bring its accounting records to an accurate reporting position for a particular period. It begins with identifying and analyzing transactions, then recording them through journal entries and posting them to ledger accounts. The cycle also includes preparing a trial balance, making adjusting entries when needed, and producing financial statements. Adjustments are a key part of the cycle because some revenues and expenses must be recognized in the appropriate accounting period even when cash was received or paid at a different time.

Thus, the wording describes the overall bookkeeping process rather than a single document or individual recording step. In a fraud-examination context, understanding the accounting cycle helps an examiner trace transactions from source documents into the books, assess whether entries were properly recorded, and evaluate whether period-end adjustments could have materially affected reported results. OpenStax describes the accounting cycle as the series of steps used to record and report financial information: OpenStax, Describe the Accounting Cycle and Its Purpose. The Financial Accounting Standards Board's conceptual framework also emphasizes reporting financial information useful to users of financial reports: FASB Concepts Statements.

QUESTION NO: 16

(Management at XYZ Inc. wants to mitigate one of the risks identified during the company's fraud risk assessment process. Which of the following actions would be MOST APPROPRIATE to support this response?)

A. Discontinuing the underlying activity completely

B. Deciding not to implement any responsive measures

C. Purchasing fidelity insurance to protect against the associated risk of loss

D. Implementing additional internal control measures

ANSWER: D

Explanation:

Implementing additional internal control measures is the most appropriate response because risk mitigation means reducing a fraud risk to an acceptable level by decreasing its likelihood, its potential impact, or both. Following a fraud risk assessment, management should select and implement control activities that directly address the identified risk's underlying causes, opportunities, and vulnerabilities. Depending on the nature of the risk, these measures can include segregation of duties, approval requirements, reconciliations, access restrictions, management review controls, monitoring, exception reporting, and strengthened documentation procedures.

Effective mitigation is risk-specific: management should design controls around the particular fraud scheme, affected process, responsible roles, and relevant assets or information. The controls should also be practical, assigned to accountable owners, documented, and monitored for continuing effectiveness. This approach supports the organization's broader internal-control system by translating the fraud risk assessment results into concrete preventive and detective actions. The ACFE's fraud-risk-management resources emphasize using fraud risk assessments to identify and implement tailored controls, while COSO describes control activities as actions established through policies and procedures to help manage risks to acceptable levels. See the ACFE fraud risk management resources and COSO Internal Control guidance.

QUESTION NO: 17

Larceny by Fraud or deception means that:

A. Creates or reinforce a false impression

B. Fails to correct a false impression

C. Fails to disclose a known lien, adverse claim or other legal impediment

D. All of the above

ANSWER: D

Explanation:

"All of the above" is correct because larceny by fraud or deception, commonly described in modern statutes as theft by deception, encompasses obtaining another's property through material deceptive conduct or omissions. Deception can consist of creating or reinforcing a false impression, including an impression about facts, law, value, intention, or another state of mind. It also includes failing to correct a false impression when the person has created or reinforced it, or when the person knows the other party is relying on it in a transaction. In property transactions, deception further includes failing to disclose a known lien, adverse claim, or other legal impediment to the enjoyment of property when there is a duty to provide that information. These forms of conduct share the essential fraud-examination principle that the victim is induced to part with property because of misleading information or a material concealment. The statutory formulation in Pennsylvania's theft-by-deception provision expressly includes creating or reinforcing a false impression, failing to correct one, and failing to disclose a lien or other legal impediment. See 18 Pa. Cons. Stat. § 3922. For general legal context on larceny and its property-taking element, see Cornell Legal Information Institute's larceny overview.

QUESTION NO: 18

A variation between the physical inventory and the perpetual inventory totals is called:

A. Altered inventory

B. Account receivable

C. Shrinkage

D. Write-offs

ANSWER: C

Explanation:

Shrinkage is the correct term for the difference between inventory quantities or values shown by a physical count and those recorded in a perpetual inventory system. A perpetual system continuously updates the book inventory balance for purchases, sales, returns, and other recorded movements. Periodic physical counts provide an independent measure of what is actually on hand. When the physical count is lower than the recorded balance, the difference is inventory shrinkage. It commonly reflects losses such as theft, damage, spoilage, vendor fraud, employee fraud, receiving or shipping errors, and recordkeeping inaccuracies.

For fraud examination purposes, shrinkage is an important analytical indicator rather than proof of fraud by itself. Investigators and management should compare results by location, product category, period, employee access area, and transaction type to identify unusual patterns and determine whether further inquiry is warranted. The shrinkage amount is ordinarily recognized through an inventory adjustment so that accounting records reflect the verified physical quantity. The term and its use in inventory accounting are consistent with guidance from Corporate Finance Institute's inventory-shrinkage overview and inventory-control principles discussed by the Association of Certified Fraud Examiners' fraud-risk resources.

QUESTION NO: 19

Which of the following statements is MOST ACCURATE regarding best practices that organizations can take to protect and support whistleblowers?

A. Organizations should include in their whistleblower policies the specific penalties that people might encounter for refusing to report suspected misconduct.

B. Organizations should emphasize that whistleblower protection rules are only intended for lower-level employees who are more vulnerable to retaliation.

C. Organizations should publicize their whistleblower policies and procedures to individuals both inside and outside of the organization.

D. Organizations should implement a clear whistleblower policy that lists every type of misconduct that has ever been reported at the company.

ANSWER: C

Explanation:

Organizations should publicize their whistleblower policies and procedures to individuals both inside and outside of the organization. A reporting system can protect whistleblowers only when potential reporters know it exists, understand how to use it, and trust that concerns will be handled appropriately. Regular internal communication makes employees, managers, and directors aware of available reporting channels, confidentiality practices, anti-retaliation commitments, and the process for escalating concerns. Extending awareness outside the organization is also important because vendors, customers, contractors, agents, and other third parties can observe misconduct or receive relevant information. They need clear, accessible instructions for reporting concerns without having to navigate informal business relationships or identify the “right” internal contact.

Publicizing the policy should be more than posting a document once. Effective programs use visible, practical communications, such as onboarding materials, training, intranet pages, supplier communications, and hotline or web-reporting information. This supports a speak-up culture and increases the likelihood that concerns are raised early, when the organization can investigate and remediate them. The U.S. Department of Justice identifies a well-publicized reporting mechanism as an important feature of an effective compliance program; see its Evaluation of Corporate Compliance Programs. The OECD likewise emphasizes accessible reporting channels and protection for those who report wrongdoing in its whistleblower protection resources.

QUESTION NO: 20

When employees committing the fraud removes cash from the register and also the item allegedly being returned is debited back into the inventory, this refers to:

A. Registry destroying records

B. Register false voids

C. Fraudulent register occurrences

D. Concealing register disbursement

E. Fraudulent register refunds

ANSWER: E

Explanation:

Fraudulent register refunds is the correct term. This scheme, also commonly called a false or fictitious refund, occurs when an employee processes a refund transaction even though no legitimate customer return has occurred. The employee takes the cash generated by the refund while using the register entry to create an apparently authorized reason for the cash reduction. Recording the supposedly returned merchandise back into inventory is part of the false refund transaction: it makes the point-of-sale and inventory records appear consistent with a return having taken place.

In practice, fraud examiners assess refund patterns, supporting return documentation, transaction timing, employee identification on refund entries, and whether inventory movements can be corroborated through physical counts or other records. These procedures help identify refund activity that is not tied to genuine customer transactions. The Association of Certified Fraud Examiners describes occupational fraud as the use of one’s occupation for personal enrichment through deliberate misuse of an employer’s resources, which encompasses cash-register refund schemes. See the ACFE’s overview of fraud and its 2024 Report to the Nations for occupational-fraud context.

QUESTION NO: 21 - (SIMULATION)

One of the simplest ways to justify unacceptable conduct and avoid guilt feelings is to invent a good reason for ________.

ANSWER: See the explanation for the answer

Explanation:

Answer: `doing it`

Inventing a good reason for doing unacceptable conduct is a form of **rationalization**, which helps an individual justify the behavior and reduce feelings of guilt.

QUESTION NO: 22

The scheme in which the same vendor is receiving favorable treatment van be found in purchases by vendor searches.

A. True

B. False

ANSWER: A

Explanation:

True is correct. A purchases-by-vendor search is a useful procurement-data analysis because it groups transaction activity by supplier and makes concentration of purchasing activity readily visible. When one vendor repeatedly receives awards, purchase orders, or an unusually large share of organizational spending, the pattern can be an indicator that the vendor is receiving preferential treatment. This analysis gives the fraud examiner a focused population for follow-up procedures, such as reviewing competitive-bid documentation, approvals, pricing, vendor-selection rationale, conflicts-of-interest disclosures, and relationships between employees and the vendor. The search does not by itself prove misconduct: a legitimate sole-source arrangement or specialized vendor relationship can also produce concentrated spending. However, it is an appropriate detection technique for identifying the red flag described in the question and directing further investigation. Favoritism in vendor selection can be associated with corruption risks, including conflicts of interest, bribery, and kickback arrangements, all of which may affect the integrity of procurement decisions. ACFE describes corruption as involving the misuse of influence in a business transaction, and procurement fraud guidance similarly emphasizes scrutiny of vendor-selection and contracting activity. See ACFE: What Is Fraud? and U.S. Department of Justice: Procurement Fraud.

QUESTION NO: 23

When a victim company purchases unnecessary goods or services from a supplier at the direction of the corrupt employee, this results in:

A. Presolicitation scheme

B. Need recognition scheme

C. False sole-source scheme

D. Submission scheme

ANSWER: B

Explanation:

Need recognition scheme is correct because it describes a corruption-based purchasing arrangement in which an employee improperly creates, exaggerates, or identifies a business need so that the organization will buy goods or services it does not actually need. The corrupt employee directs the purchase to a cooperating supplier, commonly receiving a kickback or another undisclosed benefit in return. The fraud loss arises when company funds are spent on unnecessary items or services, regardless of whether the supplier delivers what was ordered. This scheme exploits the earliest stage of the procurement cycle: determining whether there is a legitimate need to buy. Effective controls include independent review of purchase requisitions, documented business justification, budget-owner approval, inventory and usage analysis, and monitoring vendors for unusual relationships with employees. Procurement fraud is a significant occupational-fraud risk because employees with influence over purchasing can manipulate decisions for personal gain. The Association of Certified Fraud Examiners discusses occupational-fraud risks and prevention resources at ACFE Fraud Resources; its global fraud data and analysis are available in the ACFE 2024 Report to the Nations.

QUESTION NO: 24

Revenue is recognized when it is:

A. Realized and Earned

B. Fictitious and Earned

C. Realized and Evidenced

D. All of the above

ANSWER: A

Explanation:

“Realized and Earned” is correct because it expresses the traditional revenue-recognition threshold used in financial-reporting and fraud-examination contexts. Revenue is realized when an entity has received cash or a claim to cash, such as an enforceable receivable, in exchange for goods or services. It is earned when the entity has substantially completed the activities it must perform to be entitled to that consideration. Together, these conditions help ensure that reported revenue reflects an actual completed or substantially completed economic transaction rather than a mere expectation of a future sale.

This principle is especially important in fraud examinations because premature revenue recognition can materially overstate sales, earnings, and assets. The traditional formulation is commonly stated as “realized or realizable and earned”; however, among the available responses, “Realized and Earned” captures the intended requirement. Current U.S. GAAP applies ASC 606’s control-transfer model, under which revenue is recognized when or as the entity satisfies a performance obligation. That model retains the same underlying discipline: recognition must be supported by a valid customer arrangement and performance that establishes the entity’s right to consideration. See the SEC’s discussion of the traditional criteria in Staff Accounting Bulletin No. 104 and the FASB’s overview of the Accounting Standards Codification.

QUESTION NO: 25

Which of the following would MOST LIKELY be a violation of the ACFE Code of Professional Ethics?

A. Green a CFE, uncovered several material internal control deficiencies unrelated to the financial statement fraud he was investigating. In his final report to management. Green included information about the deficiencies even though they were unrelated to the situation he was hired to investigate.

B. Stephanie, a CFE, accepted a fraud examination assignment and then instructed a lower-level employee to assess the company ' s cash records for signs of fraud. She took his word when he said there was no evidence of wrongdoing and ended up failing to uncover a very costly fraud scheme.

C. Susan, a CFE, was hired by a client to conduct a fraud examination but found nothing amiss A year later, she received a legal order from the local prosecutor ' s office to provide the client ' s file. Susan complied with the court order, even though she did not have the client ' s authorization to do so.

D. All of the above are violations

ANSWER: B

Explanation:

“Stephanie, a CFE, accepted a fraud examination assignment and then instructed a lower-level employee to assess the company’s cash records for signs of fraud. She took his word when he said there was no evidence of wrongdoing and ended up failing to uncover a very costly fraud scheme.” is the most likely ethics violation because accepting an engagement carries a professional responsibility to perform the work with appropriate competence, diligence, and supervision. A CFE can use assistants or delegate discrete procedures, but delegation does not eliminate the CFE’s responsibility for evaluating the work performed, assessing whether the procedures were sufficient for the engagement’s risk, and following up on significant areas such as cash that are especially susceptible to misappropriation. Simply accepting a subordinate’s unsupported conclusion, without adequate review or corroboration, falls short of the careful and professionally competent conduct expected of a fraud examiner. The ACFE Code of Professional Ethics requires members to perform professional services with competence and diligence and to avoid conduct that reflects adversely on the profession. In a fraud examination, that obligation means applying professional skepticism and ensuring that conclusions are based on adequate examination work rather than unverified assurances. See the ACFE Code of Professional Ethics and the ACFE's Fraud Examiners Manual resources.

QUESTION NO: 26 - (SIMULATION)

A ____________ can be very costly for an organization to undertake, both in terms of money and time spent.

ANSWER: See the explanation for the answer

Explanation:

Answer: Fraud investigation

A **fraud investigation** can be very costly for an organization because it often requires substantial time, internal resources, outside experts, document review, interviews, and potentially legal action.

QUESTION NO: 27

The act of an official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefit, contrary to duty and rights of others is called:

A. Conflict of interest

B. Corruption

C. Bribery

D. Overbilling

ANSWER: B

Explanation:

Corruption is correct because it encompasses the misuse of entrusted authority, position, or fiduciary status to obtain an improper personal benefit or advantage. The defining feature is a betrayal of the duty attached to an official or trusted role: the person leverages that role in a manner inconsistent with the rights of others and the obligations of the position. In fraud examination, corruption is a principal occupational-fraud category and generally concerns schemes in which an employee abuses influence in a business decision or transaction for an undisclosed or improper benefit. This can include conduct involving conflicts of interest, improper gratuities, economic extortion, and bribery, but the term itself is broader than any one method used to secure the benefit. The wording in the question focuses on wrongful use of an official or fiduciary station, which directly describes corruption as an abuse of entrusted power. ACFE materials identify corruption as a recognized category of occupational fraud within the Fraud Tree framework. See the ACFE overview of occupational fraud and the ACFE Fraud Tree.

QUESTION NO: 28

Which of the following is TRUE regarding International Standard on Auditing (ISA) 240?

A. ISA 240 requires auditors to effectively raise awareness about the risk of fraud within the audited organization.

B. ISA 240 establishes standards regarding the auditor ' s responsibility to consider fraud in an audit of financial statements.

C. ISA 240 establishes auditors as being primarily responsible for the prevention and detection of fraud within an organization.

D. ISA 240 creates requirements for management regarding the establishment of a holistic fraud risk management program.

ANSWER: B

Explanation:

ISA 240 establishes standards regarding the auditor ' s responsibility to consider fraud in an audit of financial statements. Its purpose is to set out the auditor's responsibilities relating to fraud and to prescribe procedures for identifying and assessing risks of material misstatement due to fraud, responding appropriately to those assessed risks, and communicating fraud or suspected fraud when required. The standard requires the auditor to maintain professional skepticism throughout the audit, recognizing that a material misstatement caused by fraud may exist despite prior experience suggesting that management and those charged with governance are honest and have integrity. It also requires fraud-focused discussion among the engagement team and specific consideration of risks involving revenue recognition and management override of controls. The audit objective is to obtain reasonable assurance that financial statements as a whole are free from material misstatement, whether caused by fraud or error. Accordingly, ISA 240 directly addresses the auditor's role in considering fraud during a financial statement audit and the work needed to support that responsibility. The International Auditing and Assurance Standards Board identifies ISA 240 as the standard addressing auditors' responsibilities relating to fraud in an audit of financial statements. See the IAASB ISA 240 standard page and the ISA 240 text.

QUESTION NO: 29

Which of the following is one of the three general methods used to control corporate crime?

A. Pressure from changes in the competitive environment

B. Lowered regulatory enforcement by the government

C. Loss of funding from financial institutions

D. Demands from consumers to change

ANSWER: A

Explanation:

Pressure from changes in the competitive environment is correct because market conditions can influence corporate behavior and serve as a broad mechanism for controlling corporate crime. Companies depend on customers, investors, lenders, suppliers, insurers, and business partners. When unethical or unlawful conduct creates reputational damage, reduces consumer confidence, increases the cost of capital or insurance, or threatens access to markets and contracts, the resulting competitive pressure gives organizations a strong incentive to improve compliance and internal controls. In this sense, corporate-crime control is not limited to formal legal sanctions; changes in the business environment can impose meaningful economic consequences that encourage lawful conduct. Effective competition also promotes transparency and can make it more difficult for an organization to retain business advantages gained through deception or illegal practices. The U.S. Department of Justice recognizes that the adequacy and effectiveness of a corporation's compliance program are important considerations in corporate enforcement decisions, reinforcing the practical importance of incentives for compliant conduct. See the U.S. Department of Justice's Evaluation of Corporate Compliance Programs and the Federal Trade Commission's Guide to Antitrust Laws.

QUESTION NO: 30

Which of the following best describes a fictitious refund scheme?

A. An employee processes a refund for a sale that did not occur and takes the refunded cash

B. An employee records a customer payment before depositing it

C. A vendor submits an invoice for goods delivered to the company

D. A customer exchanges one product for another product

ANSWER: A

Explanation:

An employee processes a refund for a sale that did not occur and takes the refunded cash is correct because the fraudster uses the refund function to create an apparently legitimate cash disbursement. The original sale might be nonexistent, or the employee might use a legitimate sale record without an actual customer return. In either case, the employee causes the business to release funds under the false pretense that a customer is entitled to a refund.

Controls include requiring supervisory approval for refunds, maintaining cashier-specific system access, reviewing refund patterns by employee, and matching refunds to original sales records and evidence of returned merchandise. The ACFE identifies fraudulent refunds as a cash-register disbursement risk within asset misappropriation. See the ACFE fraud prevention resources.