

# Accounting Case Exploration

Forensic Accountant

Name \_\_\_\_\_

As a respected forensic accountant, you've been asked to assist in a potential criminal investigation.

In the stormy early hours of March 20, the "Remember Me Antiques and Gifts" store was destroyed by a fire. The initial investigation by the local fire marshal indicated traces of kerosene, which can be used as an accelerant. The store owner told the marshal that kerosene lanterns were sold in the store, so the marshal concluded the fire was caused by another source, lightning.

The store owner had recently purchased a new insurance policy that covered the building and its contents. Natural causes such as flood, lightning or storm damage were covered in this policy. The store owner stands to gain an insurance settlement covering not only the cost of the building but also the cost of the inventory that was destroyed. The insurance company still suspects arson and has hired you to investigate before they pay a costly claim. According to the store owner, most of the accounting records were destroyed in the fire. These records are crucial in determining recent suspicious transactions or cash flow problems which could indicate a motive for arson.

You file a subpoena to examine the store's recent credit card and banking transactions, and you're provided the following:

## January:

(\$75.00) City Water District

(\$42.45) ABC Office Supply

(\$625.00) Temple Insurance Company (new 6 month policy for \$500,000 coverage)

(\$1,250.00) Payroll for employee salary (payroll taxes not paid for 6 months)

(\$125.00) Legacy Storage

(\$57.84) Orin Power and Light

## February:

(\$36.76) Al's Hardware Store

(\$125.00) Rick's Truck Rental

(\$2,275.00) Payroll for employee salary (payroll taxes not paid for 7 months)

\$3,000.00 Deposit (business loan from local bank)

(\$127.89) Orin Power and Light

(\$15.00) Minimum payment on a credit card with an outstanding balance of \$18,345

## **Considerations:**

- Which transactions raise potential red flags and require more investigation?
- What transactions indicate the business was having cash flow problems which might provide a motive for collecting insurance money?
- The insurance company representatives believe valuable antiques are missing from the destroyed building. Which transactions might explain a possible connection to this theory?
- Do you suspect arson? Why or why not?