# 52 Techniques for Finding Fraud

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Written by

Jae Jun

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I was going through my notes and found these notes which I got from Yale University on **Financial Shenanigans**.

Towards the end, there was a list of 52 items to look for when thinking about fraud.

This extensive list is not required as a check for every stock, but as you get comfortable with being able to perform each task quickly, it will become second nature.

Or better yet, why not go through the list, identify the ones that you feel are really important and then add it to your analysis checklist.

## 52 Techniques for Finding Fraud

1. Be alert for misguided management incentives

2. Watch for poor internal accounting controls

3. Question overly liberal accounting rules

4. Watch for qualified opinions

5. Favor companies with conservative accounting policies

6. Be alert for aggressive inventory valuation

7. Consider the significance of pending or imminent litigation

8. Question long term purchase commitments

9. Watch for changes in accounting principles

10. Read the letter from the president with a grain of salt

11. Focus on management and its estimates

12. Be wary when the auditor and/or lawyer resign abruptly
13. Watch for early shipping, before sales occurs
14. Weigh uncertainties of companies' using the percentage of completion method
15. Look for improper use of the percentage of completion method
16. Check whether the risks and the benefits have transferred to the buyer
17. Determine whether the buyer is likely to return the goods
18. Check if the buyer has financing to pay
19. Determine whether the customer is obligated to pay
20. Watch for hasty recognition of franchise revenue
21. Question how retailers account for returned goods
22. Be alert for revenue recorded on the exchange of property
23. Determine whether management estimates are realistic
24. Watch for the sale of pooled assets acquired in a business combination
25. Be alert for tricks with LIFO pools
26. Watch for gains from the sale of undervalued investments, including real estate
27. Don't be fooled by profits from retiring debt
28. Adjust for the mixing of gains from recurring and nonrecurring activities
29. Watch for co-mingling of operating and non-operating income
30. Be alert for companies hiding losses as "non-continuing"
31. Watch for the capitalization of start-up costs
32. Consider the propriety of capitalizaing R&D costs
33. Look for companies that capitalize advertising
34. Watch for companies that capitalize administrative costs
35. Question companies that depreciate fixed assets too slowly
36. Be alert for lengthy amortization periods
37. Be concerned when the depreciation or amortization period increases

38. Watch for bad loans and other uncollectibles that have not been written off
39. Be wary of worthless investments
40. Ascertain that cash received has been earned
41. Probe for a troubled company with fixed payments
42. Watch for unrecorded postretirement liability
43. Read debt covenants carefully for contingencies
44. Examine any debt for equity swaps
45. Be wary of companies using subsidiaries for borrowing
46. Watch for defeasance of debt
47. Be critical of successful companies with large reserves
48. Be alert for prepayment of operating expenses
49. Be concerned when the depreciation or amortization period decreases
50. Use cash flow analysis to measure quality of earnings
51. Compare growth in sales with growth in inventory
52. Compare growth in sales with growth in receivables