

Forensic Accounting Problem Set 2

1. Money Laundering in a Restaurant

Definition: Money laundering is the process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to be earned legally.

Problem

Tom owns a restaurant that only accepts cash. In one week, the restaurant claims to have earned \$7,000, but only \$5,000 is reported to the tax authorities. If the restaurant has 7 days of operation per week, and Tom launders an equal amount of money through the restaurant every day, how much money does he launder each day? And how much in total did he launder for the whole week?

2. Embezzlement by a Military General

Definition: Embezzlement is the theft or misappropriation of funds or property entrusted to one's care.

Problem

General Smith was in charge of a missile defense contract worth \$120,000. However, after purchasing the required materials which cost \$80,000, he reported expenses of \$100,000. How much did General Smith embezzle? If he divided the embezzled money equally among 5 secret bank accounts, how much money did he put into each account?

3. Irregularities for a Flood Insurance Claim

Definition: An insurance claim is a formal request to an insurance company asking for a payment based on the terms of an insurance policy.

Problem

After a hurricane in Florida, Lisa submitted a flood insurance claim for her damaged house and belongings. She claimed \$15,000 for house repairs and \$10,000 for damaged belongings. However, a forensic accountant found that the actual damage to the house was only \$12,000 and the belongings were worth \$8,000. How much in total did Lisa over-claim? Lisa must now repay the over-claimed amount with an added penalty of 15%. How much will she owe in total, including the penalty?

4. Expert Witness in a Court Case

Definition: An expert witness is a person who is permitted by a judge to provide their professional opinion about a matter in court because of their expertise in a particular field.

Problem

You'll need to use the following Data Table:

Year	Reported Profit	Forensic Accountant Calculations
2018	\$22,234	\$20,156
2019	\$24,782	\$23,511
2020	\$27,445	\$25,922
2021	\$25,893	\$24,776
2022	\$29,115	\$27,642

A forensic accountant is serving as an expert witness in a court case. Using the data table, calculate the total amount by which the company over-reported their profits from 2018 to 2022. If the company over-reported equally every month, how much did they over-report each month?