



move your company forward

Inventory Fraud: Knowledge is your first line of defense.

Inventory is one of the biggest assets on a manufacturer's balance sheet. It's also one of the hardest assets to measure and track. Thousands of transactions flow through the inventory account each year — and many of these journal entries require subjective estimates, such as [overhead allocations](#), write-offs, and valuation adjustments. In addition, many employees have direct, daily access to inventory or inventory accounting records, providing an ongoing temptation to steal or cook the books.

Case in Point

Consider ABC Manufacturing, a fictitious company that fell victim to a \$300,000 inventory fraud scheme involving three trusted employees. Their scam was simple: The shipping clerk sent most finished goods to legitimate customers or company-owned retail outlets. But, a few shipments to retail outlets were redirected to the home of the payables clerk. Later, the controller picked up the stolen goods to resell them on the Internet.

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- Cash flow analysis
- Break even analysis
- Overhead rate/burden
- Buy/sell agreements
- Operational planning
- Accounting staff training

time of delivery. So, there was no paper trail identifying what had happened to the redirected shipments. Without physical inventory counts, the perps were able to pull the wool over the owner's eyes for more than 18 months. Eventually, the shipping clerk became overwhelmed with guilt and confessed the scheme to the owner. With stronger internal controls, the scheme might have been detected sooner — or prevented from ever occurring.

[Learn how you can prevent fraud before it gets started.](#)

Contact Us

Rather than waiting until fraud occurs, work with an accounting firm that can help you put internal controls in place before the fraudulent act happens. [Contact us](#) and let's move your business forward together

Adam

implementation

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