What would cause an auditor's concern in terms of odd or unexpected relationships among the elements within the financial statements?

After reviewing the case studies this far in the course, one thing I think would definitely stand out to an auditor would be Improper Timing of Revenue Recognition. This happened with Xerox, as the SEC found that Xerox accelerated recognition of its equipment revenue by more than $3 billion over the period 1997 through 2000 and increased pre-tax earnings by $1.5 billion (Jackson) . Xerox shifted revenue from its servicing revenue stream to the box revenue stream, making it appear as revenue received for physically transferring the equipment to the customer. This was done in order to recognize future service revenue at the beginning of the lease. Xerox's internal name for the accounting method whereby it shifted this revenue was its return on equity method. Xerox also shifted certain portions of its financing revenue to the box or equipment revenue stream so as to recognize that revenue at the beginning of the lease (Jackson). Xerox's name for the accounting method under which it made this shift was the margin normalization system.

Next, analyze the fictitious financial statements and locate any odd or unexpected relationships among the elements of the statements that could indicate fraud.

The first thing that stands out to me would be that sales decreased, while accounts receivable increased quite a bit. Sales and accounts receivable are directly connected so as one increases/decreases so should the other. Also with inventory increasing and sales decreasing that would throw up another red flag. Your inventory should not be increasing if your sales are decreasing.

Jackson, C. W. (2014). Chapter 4 Hocus Pocus. In Detecting Accounting Fraud: Analysis and Ethics. Upper Saddle River, NJ: Prentice Hall.