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**QUARTERLY CPE EXAM ON THE *Journal of Accountancy***

**Third Quarter (Jul - Sep), 2021 (Course # 2103)**

A Formal CPE Course using the *JoA* as Reference Material

**Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)**

Subject division: Attest/Audit 2, Acctg. 1, Fin Plan 2, Prac. Mgt. 4, Tax 1 (All Technical)

**INSTRUCTIONS:**

1. Complete but do not submit all the assignments in the **Supplementary Study Guide** with **Course objectives** available at our Web site: [www.accounting-education.com](http://www.accounting-education.com)
2. Answer the 50 multiple-choice questions by selecting the one **best** answer. **Blacken** the letter; do **not** circle. A score of 70 or better is required.
3. Unless prepaid, please submit a Payment Voucher with your completed Exam.
4. **Scan/email**, fax or snail mail your answer sheet to AEA for grading by deadline below.
5. For CPE credit, please be sure your name and email address are legible.
6. **For faster response, please provide your email address below.**

**COURSE EVALUATION:**

On a scale of A (highest) to F (lowest), please evaluate the following:

- \_\_\_ 1. The course met the objectives described in the promotional material?
- \_\_\_ 2. Any stated prerequisites were necessary or desirable?
- \_\_\_ 3. The course was timely and effective?
- \_\_\_ 4. The course met your professional education needs?
- \_\_\_ 5. The course materials were understandable and helpful?

On my honor as a CPA or CMA, I have neither given nor received assistance on this Exam.

(Signed) \_\_\_\_\_ (Dated) \_\_\_\_\_

Please print your full name: \_\_\_\_\_

Please print your email address: \_\_\_\_\_

To which state boards or agencies do you report CPE? \_\_\_\_\_

Sponsor Agreements with State Boards of Accountancy:

**Hawaii** (#94007-20), **Illinois** (#158-000242), **Pennsylvania** (#PX000005-L) and **Texas** (#000211).

**Please leave this space blank for your Certificate of Completion.**

Most state boards do not require sponsor registration. Check with your Board.

**\*\*For CPE credit, this exam must be submitted to AEA by 12/28/2023.\*\***

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Date completed: \_\_\_\_\_

“Life is not a matter of holding good cards, but of playing  
a poor hand well.”  
...Robert Louis Stevenson.

This is a formal Interactive self-study CPE course using the *Journal of Accountancy* as reference material designed to keep you abreast of the latest changes affecting our profession. Our course consists of a Supplementary Study Packet (available at our Web site: [www.accounting-education.com](http://www.accounting-education.com)) and this Final Exam; it is divided into sections, each corresponding to selected articles appearing in the JoA. This series of **quarterly** formal self-study programs can be completed in the convenience of your home or office. New courses normally appear on our Web site around the beginning of each quarter.

#### LEARNING OBJECTIVES:

The specific learning objectives are stated in the individual sections of the **Supplementary Study Guide** associated with this Quarterly CPE Exam available at [www.accounting-education.com](http://www.accounting-education.com)

**PREREQUISITES:** None.

**LEVEL:** Basic.

**COURSE NUMBER:** The course number we assign to each quarterly CPE Exam is derived from the Year and Quarter, YYQQ.

#### COURSE SPONSOR:

Accounting Education Associates (“AEA”) has offered **Quarterly CPE Exams** on the *Journal of Accountancy* every quarter since 1982. Courses were prepared by either:  
**James H. Ogburn, MBA, CPA**, founder of AEA. Jim's experience includes public accounting, finance and 18 years as Director of Graduate Programs in Accounting and Business at the University of North Carolina at Greensboro and 36 years developing AEA courses.  
**Keith A. Pearson, CPA**. Keith's experience includes “Big 4” public accounting, industry as a CFO and controller and managing a CPA firm serving closely-held businesses and individuals.

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**IMPORTANT !!! - To receive credit, each exam MUST BE SUBMITTED on or before the expiration date noted at the bottom of the exam.**

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We recommend CPE credit of ten (10) hours in accordance with the standards of NASBA. CPE credits have been granted based on a 50-minute hour for Interactive Self-Study CPE courses. The estimated completion time of 10 hours is based on pilot tests of our Study Packet, reference material readings and final exam and are likely to vary from quarter to quarter. A few state boards still use the old standard of awarding CPE credit of only 50% of the estimated completion time. For further guidance, please check with your own state board or agency.

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_____	First Quarter (January - March), 20____
_____	Second Quarter (April - June), 20____
_____	Third Quarter (July - September), 20____
_____	Fourth Quarter (October - December), 20____

\_\_\_\_\_ Total Quantity times Unit price of \$ \_\_\_\_\_ = \$ \_\_\_\_\_ Total charge

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(Take a dollar off each exam you pay by check.)

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***Optional:*** Please estimate your course completion time. \_\_\_\_\_

***Thank you for your business and referrals.***

**Sections I–V and Exam Questions 1–30 Relate to the *Journal of Accountancy* – July, 2021.**

**Section I. An Evaluation Framework for Responding to Requests (Page 10)**

1. The authors warn that how CPAs respond to requests may invite professional liability risk resulting from:
  - a. Breach of confidentiality.
  - b. Unintentional expansion of “privity” to a third party.
  - c. Scope creep.
  - d. a and b, but not c.
  - e. a, b and c.
2. The authors recommend evaluating requests using a series of questions. The importance of asking “Who is asking?” is to:
  - a. First determine whether there are unpaid fees.
  - b. First determine whether they have the appropriate authority to receive client information.
  - c. Determine where to forward the requested information.
  - d. Determine which firm staff member will handle the request.
  - e. First establish “privity” with a third party.
3. A CPA firm is not required to release workpapers unless:
  - a. The client makes a written request.
  - b. The client is changing firms.
  - c. There is a legal or regulatory requirement to do so.
  - d. The client authorizes the CPA to do so.
  - e. The client is current on all fees.
4. Consider the examples the authors use to demonstrate the risks raised by the questions “Why are they asking?” and “What could go wrong?”. What is the common risk demonstrated in each of these examples?
  - a. An unauthorized third party receives client information.
  - b. Release of the information was a violation of the Code.
  - c. The client never authorized release of the information.
  - d. The third party receiving the information relies upon it for their decision-making and could sue the CPA if the results are negative.
  - e. In neither case was the CPA compensated by the requesting party.
5. In addition to the evaluation questions, the authors recommend CPAs consider engagement letters that state:
  - a. “The firm will not respond to third-party requests, including those from lenders.”.
  - b. “The client will identify a representative to work with the CPA to whom third-party requests will be directed.”
  - c. “The client will pay for the CPA's costs to respond to subpoena or deposition requests, if the firm is not a party to the proceeding .
  - d. a and b.
  - e. a, b and c.

**Section II. Planning for Education Expenses amid Change (Page 12)**

6. According to education planning expert Ross Riskin, the shift to online learning by colleges reacting to the COVID-19 pandemic, often with no adjustment or reduction in tuition fees, caused many students or parents to demand some refund or cost reduction. Mr. Riskin believes these demands are evidence that students and parents:
  - a. Do not fully appreciate the value of a college education.
  - b. Suffered financially as a result of the pandemic.
  - c. May value the college “experience” more than the actual education.
  - d. Have not saved enough for college.
  - e. May value the college education more than the “experience.”

7. For federal education loan borrowers, Mr. Riskin recommends enrolling in an income-driven repayment (IDR) plan. IDR plans generally calculate the monthly payment amount:
  - a. By considering the borrower's net worth.
  - b. By considering the borrower's ability to pay, based on income.
  - c. Using a 20-year amortization.
  - d. By considering the parent's ability to pay.
  - e. The same as a mortgage style loan.
8. An added benefit of an IDR plan is:
  - a. The interest rate is always lower than a private loan.
  - b. Monthly payments can be drafted automatically.
  - c. There is an opportunity for loan forgiveness for balances remaining at the end of the 20- or 25-year repayment plan.
  - d. If income decreases, the monthly payment remains the same.
  - e. The interest changes quarterly based on market rates.
9. With low interest rates, should borrowers refinance to save interest?
  - a. No. A borrower with federal loans on track to receive forgiveness under the Public Service Loan Forgiveness program would lose the forgiveness.
  - b. No. A borrower with federal loans under an IDR plan and on track to receive forgiveness at the end of the repayment term would lose forgiveness.
  - c. Yes, if the borrower has private loans.
  - d. a and b.
  - e. a, b and c.
10. To save for college, Mr. Riskin recommends a combination of:
  - a. Sec. 529 plans, regular IRAs and taxable accounts.
  - b. Sec. 529 plans, Roth IRAs and taxable accounts.
  - c. Sec. 529 plans, Roth IRAs and annuities.
  - d. Sec. 529 plans, regular IRAs and 401(k) accounts.
  - e. Sec. 529 plans, Roth IRAs and federal student loans.

### **Section III. Vacation and Sick Pay Accruals Resulting from the Pandemic (Page 25)**

11. Employees can earn the right to take time off with pay, known as *compensated absences*. Some employers allow accumulated rights. Which of the following would be an example of that?
  - a. Sick days that must be used before the end of the year.
  - b. Vacation days that must be used before the end of the year.
  - c. Unused sick days that can be carried to the next year.
  - d. Unused vacation days that are paid out at the end of the year.
  - e. A new employee completes a sixty day waiting period to become eligible for the company health insurance plan.
12. Company policies may provide for vested rights. Which of the following would be an example?
  - a. Unused vacation days that must be paid when the employee leaves the company.
  - b. Unused sick days that are not paid when the employee leaves the company.
  - c. Unused sick days that are paid when the employee leaves the company.
  - d. a and c.
  - e. a, b and c.
13. An employer has determined there is an obligation to compensate future absences based on services already rendered (and so has vested). The employer must accrue a liability for this obligation:
  - a. Only if the related employees have not terminated.
  - b. If the payment is probable.
  - c. If it can be reasonably estimated.
  - d. a and b.
  - e. b and c.

14. The accrual for compensated absences should take into account the substance of the employer's policies over the form. Which of the following is an example of that?
- The company accrues an estimate for unpaid sick leave. The company policy is "use-it-or-lose-it," but the company has allowed employees to carry over unused days to the next year.
  - The company accrues only the amount of sick leave employees are entitled to.
  - The company does not accrue vacation as most employees take it all before they retire.
  - The company sick leave policy is "use-it-or-lose-it." Each year end the company accrues a liability for the estimated sick leave for the next year.
  - The company accrues the entire vacation obligation even though every year some employees forfeit some vacation and that amount can be estimated.
15. The author recommends accountants take a \_\_\_\_\_ approach when accruing compensated absences.
- Income statement.
  - Balance sheet.
  - Cash flow.
  - Tax basis.
  - Discounted.
16. The compensation rate used to calculate the accrual includes:
- The cost of fringe benefits.
  - Employer taxes.
  - Employee share of group health insurance premium.
  - a and b.
  - a, b and c.
17. To calculate the accrual for compensated balances, the accountant can use the employee's current compensation rate or choose to use:
- The average rate for the last three years.
  - The likely rate when the employee will redeem the days, discounted to present value.
  - The rate in effect when the employee earned the days.
  - A average rate for all employees.
  - The likely rate when the employee will redeem the days, without discounting to present value.
18. Because accrued compensated absences are not deductible on the income tax return, the accountant will need to record a \_\_\_\_\_ equal to the accrual times the current effective tax rate.
- Deferred tax asset.
  - Deferred tax liability.
  - Deferred compensation asset.
  - Deferred compensation liability.
  - Deferred employment tax.
19. The amount of accrued compensated absences does not have to be accrued and disclosed if:
- The amount is less than 10% of payroll costs.
  - The amount is material.
  - The amount cannot be reasonably estimated. That fact should be disclosed in a footnote.
  - The calculation would be time-consuming.
  - The company is closely-held.
20. An accrual should be made for a sabbatical leave if the employee:
- Uses the time for personal recreation and travel.
  - Is "loaned" to help a local leadership training program sponsored by the employer.
  - Conducts market surveys the company will use for product development.
  - Works with a national trade organization on behalf of the employer.
  - Works on a research project that will be used by the company.

#### Section IV. Medicare's Tricky Rules and HSAs after age 65 (Page 39)

21. Medicare Part A coverage is:
  - a. Prescription drug coverage.
  - b. Medical insurance.
  - c. Hospital insurance.
  - d. a and b.
  - e. a, b and c.
22. Currently, individuals are eligible for full retirement benefits from Social Security at age 66 or 67. However, they are eligible for Medicare benefits at age 65. For individuals still working and covered under an employer-provided health plan, the prevailing wisdom advised signing up for Medicare Part A at age 65 because:
  - a. If you miss this deadline you can never enroll in Medicare.
  - b. Doing so gets you “in the system” and helps avoid penalties for late enrollment for Part B and Part D.
  - c. Enrolling in Part A allows you to continue contributions to your HSA plan.
  - d. Enrolling in Part A reduces the premium due your employer-provided plan.
  - e. Enrolling at age 65 qualifies you for a lower Part A monthly premium.
23. HSA contributions are not allowed:
  - a. Once a person reaches 65.
  - b. If a person is 65 and has an employer-provided HSA plan.
  - c. If a person has other coverage in addition to the HSA-eligible plan, such as Medicare, TRICARE or even a flexible-spending account used by a spouse.
  - d. If the plan is a high-deductible plan.
  - e. Once a person is older than 65.
24. A worker covered under an employer-provided HSA-eligible plan at work turns 65 and enrolls in Medicare Part A. The worker:
  - a. Can no longer make tax-deductible contributions to the HSA.
  - b. May continue to use funds in the account to pay for qualified medical expenses.
  - c. May use the funds to reimburse the cost of the Medicare premiums.
  - d. a and b.
  - e. a, b and c.
25. To defer Medicare enrollment past age 65, the taxpayer must be enrolled in an employer-based group health plan. Which of the following qualify?
  - a. COBRA coverage.
  - b. Coverage under a spouse's employer-provided plan.
  - c. Individual coverage purchased through the health care exchange.
  - d. An HSA-eligible plan through the private marketplace.
  - e. All of the above.

#### Section V. Certified Professional Employer Organizations: The First Four Years (Page 42)

26. A professional employer organization (PEO) can \_\_\_\_\_ for its clients.
  - a. Process payroll.
  - b. Remit and report payroll taxes.
  - c. Provide access to benefits such as health insurance and 401(k) plans.
  - d. a and b, but not c.
  - e. a, b and c.
27. How does a PEO relationship differ from a traditional outsourcing relationship?
  - a. The PEO is considered the sole employer.
  - b. The PEO is considered a co-employer.
  - c. The PEO is responsible for all human resource functions, including hiring, firing, performance reviews, etc.
  - d. The PEO will represent employees in collective bargaining.
  - e. The PEO is not considered an employer but just a service-provider.

28. Your business contracts with a Certified Professional Employer Organization (CPEO) to handle all aspects of processing payroll, including remitting and reporting payroll taxes. Under Sec. 3511, when does the CPEO become liable for employment taxes?
- Never, because the CPEO is not the employer.
  - Once your business pays the CPEO.
  - Once the CPEO pays your employees.
  - Thirty days after the CPEO pays your employees.
  - The date a delinquency notice is mailed by the state or federal agency.
29. Before the certification program, there were cases where a PEO collected payroll taxes from the client, failed to remit them and courts determined that:
- The client was responsible for the unpaid taxes.
  - The PEO was responsible for the unpaid taxes.
  - The client and the PEO were each liable for one-half of the unpaid taxes.
  - The client and the PEO were liable jointly and severally for the unpaid taxes.
  - The PEO was liable for taxes withheld from employees, while the client was for the employer portion of taxes owed (FICA/Medicare match, federal and state unemployment, etc).
30. As part of the certification process, the CPEO must submit audited financial statements each year to the:
- AICPA.
  - CPEO Standards Committee.
  - U.S. Department of Labor.
  - Internal Revenue Service.
  - Employee Benefit Guarantee Committee.

**Section VI and Exam Questions 31– 35 Relate to the *Journal of Accountancy* – Aug., 2021.**

**Section VI. 7 Tips for Starting a Client Advisory Services Practice (Page 14)**

31. One challenge when starting a CAS practice is rethinking the firm's way of doing business. One expert noted:
- You can't bill by the hour.
  - All services are provided remotely.
  - You will rely on software for activities you've never performed before, such as customer service.
  - You will encounter a lot of competition in this crowded market.
  - Fortunately, many of the services provided and related software are usually already part of the existing practice.
32. An Indianapolis firm offers clients four CAS packages at different price points. The firm first performs an in-depth operational assessment. The assessment:
- Is performed by the audit staff.
  - Is also offered as a stand-alone service.
  - Is scaled down and performed as part of all audit engagements.
  - Is only performed when the client uses CFO-level services.
  - Is performed by the client's staff with some firm oversight.
33. CAS practices follow a progression that one firm labels as CAS 1.0, CAS 2.0 and CAS 3.0. CAS 1.0 services include:
- Cash management and reconciliation.
  - Accounts payable and bill paying.
  - Account receivable and collections.
  - b and c only.
  - a, b and c.

34. Clients want CPAs who are specialists and understand their industry. Consequently, some CAS practices:
- Spend considerable resources on continuing education.
  - Join multiple industry trade groups.
  - Focus on a few niche industries.
  - Partner with other CPA firms to provide CAS.
  - Focus on a broad spectrum of industries.
35. When considering starting a CAS practice, some advice offered in the article includes:
- Consider available resources and training, including material offered by the AICPA.
  - Consider partnering with a CAS firm operating in other niches.
  - Start with your largest clients.
  - a and c.
  - a and b, but not c.

**Sections VII – IX and Exam Questions 36– 50 Relate to the *Journal of Accountancy* – Sept., 2021.**

**Section VII. Frequently Asked Engagement Letter Questions (Page 8)**

36. One of the best defense tools a CPA can possess is an engagement letter. According to CNA (the underwriter of the AICPA Professional Liability Insurance Program) in all claims filed against CPAs in 2020, only \_\_\_\_\_ of the firms had an engagement letter for the engagement at issue.
- 20%.
  - 31%.
  - 40%.
  - 61%.
  - 71%.
37. For CPAs who have not used engagement letters, how does the author recommend proceeding?
- Immediately prepare engagements letters for all current clients.
  - Prioritize the low-risk and less complicated clients first, as they will be less time-consuming.
  - Prioritize the high-risk clients and services and services that require a written understanding.
  - Proceed alphabetically through the client list as the potential liability is the same regardless of the client.
  - Have each client prepare their engagement letter.
38. The convenience of a negative assurance engagement letter is:
- It does not require the client's signature.
  - It can be signed by any officer or representative of the client.
  - The CPA does not provide a copy to the client.
  - Once signed by the CPA, it remains in effect for all future engagements.
  - It does not have to be in writing.
39. “Evergreen” engagement letters indicate services will continue until either party terminates the relationship. A drawback of these letters could be:
- The CPA can never change the billing terms.
  - Clients are reluctant to agree to these arrangements.
  - They do not specify the end of the engagement and could unintentionally extend the statute-of-limitations, allowing a claim to be filed well beyond the expected term.
  - The letters are not recognized in many jurisdictions.
  - They afford little protection from legal claims.
40. Client requests to add defense and indemnification provisions in the engagement letter have become more common. The author advises the CPA to consider these requests carefully as these provisions:
- Attempt to shift responsibility to the CPA.
  - Could lead to significant costs not covered by professional liability insurance.
  - Could impair independence.
  - a and b.
  - a, b and c.

## Section VIII. 10 Billing Myths That Can Undercut Your Value (Page 21)

41. Proper billing has a lot to do with:
  - a. Keeping rates low.
  - b. Use of the latest technology.
  - c. Confidence in the value of your work.
  - d. Providing very detailed descriptions on invoices.
  - e. Discounting work to retain clients.
42. For CPAs who believe underbilling will attract additional work or lowering fees will retain clients, one expert notes:
  - a. The reduced rates or underbilling will become an ongoing expectation by the client.
  - b. By starting low, the CPA can slowly raise rates over the next year or two.
  - c. This works well because the extra work it attracts will make up the difference.
  - d. The reduced rates will prompt the firm to find efficiencies and cost savings to offset the revenue reduction, and will improve the firm's operations.
  - e. The low rates will help trigger accelerated growth in clients and fees.
43. Engagement letters are an important tool for billing and collection. One expert advises the engagement letter should:
  - a. Clearly describe the services and fees.
  - b. Contain a retainer requirement, especially for high-risk clients.
  - c. Should be signed before beginning work.
  - d. a and c.
  - e. a, b and c.
44. What does the article say about delayed billing?
  - a. If a CPA delays billing for months, billing for unanticipated or out-of-scope work could make for a difficult negotiation with the client.
  - b. It is better to send one large bill after the engagement rather than a series of interim bills.
  - c. It helps the firm simplify billing and collection by saving time.
  - d. Clients are happy with delayed billing because it delays the payment.
  - e. It isn't a problem, the amount is still the same.
45. Regarding the degree of detail provided in invoices, the article notes:
  - a. A high degree of detail is good because it helps the client see the value of the work.
  - b. Providing few details is preferred because billing time is reduced.
  - c. Clients want to see a detail list of work performed by staff and the resulting charge.
  - d. The more detail on the bill, the more questions the client may raise about the work.
  - e. The amount of detail doesn't matter. Clients rarely question the bill.

## Section IX. A Take on Cryptoasset Transactions, Investments, and Risk (Page 33)

46. According to the AICPA practice aid *Accounting for and Auditing of Digital Assets*, a cryptoasset generally should be classified on the balance sheet as:
  - a. Cash and short-term investments.
  - b. Other current assets.
  - c. Intangible assets (indefinite life).
  - d. Long-term investments.
  - e. Other non-current assets.
47. Under current GAAP reporting for indefinite-life assets, if testing concludes the value of a cryptoasset drops:
  - a. Impairment loss is recognized on the income statement.
  - b. Impairment loss is recognized but if the value later increases, the asset is not marked up, so GAAP can result in understating cryptoassets on the balance sheet.
  - c. Impairment loss is recognized but if the value later increases, the asset is marked up and market gain is recognized on the income statement.
  - d. a and b.
  - e. a and c.

48. For federal tax purposes, a cryptoasset is treated as:
- a. Currency.
  - b. An unsecured promise to pay (eg: accounts receivable).
  - c. Property.
  - d. Currency equivalent.
  - e. A derivative.
49. Depending on the facts and circumstances, the IRS can treat cryptoassets as:
- a. Business or personal property.
  - b. Investment property.
  - c. Inventory.
  - d. a and b.
  - e. a, b and c.
50. If a person receives cryptoassets as payment for services:
- a. The payor is not required to issue a Form 1099 or Form W-2 as the payment is not in currency.
  - b. The payee is not required to report the income as the payment is not in currency.
  - c. The payee reports for tax purposes income equal to the FMV of the cryptoasset as of the date received.
  - d. The cryptoasset is not taxable when received but when it is sold.
  - e. The payee must report the cryptoasset as taxable income. The IRS allows the taxpayer to choose the FMV on the date of receipt or the average FMV for the tax year.