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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Third Quarter (Jul – Sep), 2022 (Course # 2203)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Audit 4, IT 1, Prac. Mgt. 3, Tax 2

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
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:
Illinois (#158-000242), **Pennsylvania** (#PX000005-L) and **Texas** (#000211). Most state boards do not require sponsor registration. Check with your Board.

Please leave this space blank for your Certificate of Completion.

****For CPE credit, this exam <u>must</u> be submitted to AEA by 12/30/2024.****

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Date completed: ___________________

“The only function of economic forecasting is to make astrology look respectful.”
...attributed to John Kenneth Galbraith, economist

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) 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

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.

RECOMMENDED CPE CREDIT:
We recommend CPE credit of ten (10) hours in 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.**

SUBJECT DIVISIONS OF CPE CREDIT:
The recommended subject division is shown on the Final Exam answer sheet, applies to this quarter only and is likely to vary from quarter to quarter.

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PRICES:
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Price per course for orders of 4 to 7 courses:	$46
Price per course for orders of 8 to 23 courses:	$43
Price per course for orders of 24 or more:	$40

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Name ____
Firm (If part of address) __________________________
Address_______________________________________
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To which state board(s) do you report CPE?_____________
Source of referral if applicable:______________________

I am submitting _____ completed Exam(s) on the ***JofA*** that I've downloaded from www.accounting-education.com

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

_____ First Quarter (January - March), 20___
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_____ Third Quarter (July - September), 20___
_____ Fourth Quarter (October - December), 20___

_____ Total Quantity times Unit price of $ _____ = $ _______ Total charge

Unit price depends on total number of Exams:

1 – 3 Exams: $49	8 – 23 Exams: $43
4 – 7 Exams: $46	24 and over: $40

Payment options:

______ By check that I'm mailing today.
(Take a dollar off each exam you pay by check.)

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PLEASE DO NOT SEND CREDIT CARD# TO AEA.

Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.

The learning objectives of this course are in the Study Guide at www.accounting-education.com.

Sections I–IV and Exam Questions 1–20 Relate to the *Journal of Accountancy* – July, 2022.

Section I. *Kovel* Agreement Basics for You and Your Client (Page 4)

1. Under a *Kovel* agreement, a client engages an attorney who then:
   a. Provides necessary tax research and advice.
   b. Represents the client in tax court.
   c. Engages specialists, such as CPAs to provide services to the client.
   d. Refers the client to third-party service providers for a fee.
   e. Prepares the client's income tax returns.

2. Which of the following would be protected under attorney-client privilege?
   a. Discussions between two attorneys on behalf of a client.
   b. Discussions between an attorney and a CPA concerning client matters.
   c. Discussions between an attorney and client on how to successfully underreport taxable income.
   d. a and b.
   e. a, b and c.

3. Under a *Kovel* agreement, the _____________ directs the CPA's services.
   a. CPA.
   b. Attorney.
   c. Client.
   d. CPA firm leadership.
   e. Client, with advice from the CPA.

4. Under a *Kovel* agreement, workpapers created by the CPA belong to the:
   a. CPA.
   b. Attorney.
   c. Client.
   d. a and b.
   e. a, b and c.

5. One potential pitfall of a *Kovel* agreement is:
   a. <u>Prior</u> knowledge of an issue by a CPA is <u>not</u> covered.
   b. They cover only tax-related issues.
   c. They provide little protection for the CPA.
   d. The CPA may become liable for bad results.
   e. The CPA must generally compensate the attorney.

Section II. New Possibilities When Performing Attestation Services (Page 6)

6. AICPA Statements on Standards for Attestation Engagements establish requirements for ___________ engagements.
   a. Examination.
   b. Review.
   c. Agreed-upon-procedures (AUP).
   d. a and c.
   e. a b and c.

7. A CPA performs procedures to obtain <u>limited</u> assurance in order to express a conclusion about the subject matter or assertion. This would be a(n) ___________ engagement.
   a. Agreed-upon-procedures.
   b. Review.
   c. Audit.
   d. Compilation.
   e. Consulting.

8. SSAE No. 21 allows CPAs to perform a new service, known as:
    a. Direct examination.
    b. Indirect examination.
    c. Procedures audit.
    d. E.S.G audit.
    e. Review examination.

9. Attestation services share some common attributes, such as the need for:
    a. Client acceptance procedures.
    b. An engagement letter.
    c. A client representation letter.
    d. a and b.
    e. a, b and c.

10. In an assertion-based examination engagement, the client would provide an assertion and also:
    a. Provide procedures the CPA can use to test the assertion.
    b. Have a reasonable basis for making the assertion.
    c. Perform procedures provided by the CPA to test the assertion.
    d. Assess the risk of a false assertion.
    e. Agree with the CPA which procedures the CPA will use to test the assertion.

Section III. Auditor Independence Relating to Government Client Affiliates (Page 13)

11. The AICPA Professional Ethics Executive Committee (PEEC) revised existing interpretations to address ___________ of state and local governments (SLG).
    a. Affiliates.
    b. Vendors.
    c. Joint programs.
    d. Sales tax issues.
    e. Elected officials.

12. The PEEC's revised ethics interpretation includes:
    a. Examples of state and local government entities within the context of the standard.
    b. Defines the terms “investor” and “investment.”
    c. Eliminates any notion of materiality.
    d. a and b.
    e. a, b and c.

13. The revised interpretation defines four types of affiliates of SLG financial attest clients that:
    a. Must be included in consolidated statements.
    b. Require auditors independence.
    c. Require special risk assessment procedures.
    d. Require footnote disclosure.
    e. Are exempt from auditors independence requirements.

14. Elements of a Type III affiliate include:
    a. The applicable financial reporting requires inclusion of the entity in its financial statements.
    b. The entity is material to the client's financial statements and the client has complete control over the entity's accounting.
    c. The client has chosen to <u>not</u> include the entity in the financial statements.
    d. a and b.
    e. a, b and c.

15. An investment may be considered an affiliate:
    a. If the investor has <u>control</u> over the investee.
    b. If the investor has significant influence.
    c. If the investment is trivial and inconsequential to the financial statements.
    d. a and b.
    e. a, b and c.

Section IV. Tackling the IT Challenges of Dealing with Cryptoassets (Page 27)

16. One of the biggest challenges in accounting for cryptoassets on an organization's books is:
    a. The enterprise resource planning (ERP) technology is prohibitively expensive.
    b. The ERP technology does not have all the necessary data-security features.
    c. Traditional ERP technology wasn't designed to account for or track cryptoassets.
    d. There are no reliable third-party processors to handle cryptoasset transactions.
    e. Lack of reliable market values for cryptoassets.

17. Cryptoasset quantities are tracked up to:
    a. 10 decimals or more.
    b. 12 decimals or more.
    c. 15 decimals or more.
    d. 16 decimals or more.
    e. 20 decimals or more.

18. U.S. GAAP requires businesses to track the _________ of digital assets they hold.
    a. Cost basis.
    b. Fair value.
    c. Book value of individual lots.
    d. a and b.
    e. a, b and c.

19. Cryptoassets are considered intangibles and are:
    a. Recorded at cost less any impairment changes.
    b. Reported in the currency section of the balance sheet.
    c. Marked to market value at reporting dates.
    d. Subject to 15 year amortization.
    e. Recorded at cost with no adjustment for impairment or market increases.

20. Some of the reasons people cited as why they believe digital assets will become a strong alternative to legal currencies include:
    a. More efficient and speedier transaction processes.
    b. More stable valuations.
    c. Greater transparency
    d. a and c.
    e. a, b and c.

Sections V-VII and Exam Questions 21– 35 Relate to the *Journal of Accountancy* – August, 2022.

Section V. Malpractice Claims in 2021 and Future Predictions (Page 4)

21. The majority of claims against CPA firms in the AICPA Professional Liability Insurance Program in 2021 related to:
    a. Accounting and bookkeeping services.
    b. Tax services.
    c. Audit and attest services.
    d. Consulting services.
    e. Fiduciary services.

22. In 2021, the leading <u>cause</u> of loss for tax claims was:
    a. Aggressive tax strategies.
    b. Filing obligations related to foreign income or accounts.
    c. Filing error.
    d. Estate and gift tax returns.
    e. State and local sales tax issues.

23. The primary cause of loss related to audit and attest service claims include:
    a. Failure to detect a misstatement.
    b. Disclosure error.
    c. Failure to detect theft or fraud.
    d. a and b.
    e. a, b and c.

24. In 2021, over _______ of audit and attest services claims were filed by third-parties.
    a. 20%.
    b. 35%.
    c. 50%.
    d. 65%.
    e. 75%.

25. The author notes a trend of exceptionally high jury awards, fueled in part by litigation funding. Litigation funding occurs when:
    a. The law firm agrees to bill the client after the case is concluded and any award is collected.
    b. A third party lends the plaintiff the funds needed to pay attorneys and waits until after the case is concluded to be repaid, with minimal interest.
    c. The court system provides the plaintiff funds needed to pay attorneys and then is repaid after the concluded. By law, the court charges zero interest.
    d. A third party funds the lawsuit in exchange for a share of the award.
    e. An advisory group represents the plaintiff either pro bono or at below market rates.

Section VI. Untangling Client Affiliates (Page 8)

26. A financial statement attest client (FSAC) exists when a firm provides a:
    a. Financial statement audit.
    b. Financial statement review.
    c. Financial statement compilation that does not disclose a lack of independence.
    d. a and b only.
    e. a, b and c.

27. Which situation describes a "downstream" affiliate?
    a. FSAC owns 100% of another entity.
    b. FSAC owns a minority interest in another entity and has no real influence.
    c. FSAC owns 30% of another entity which is not material to the FSAC.
    d. a and b.
    e. a and c.

28. Why is it important to identify all affiliates of an FSAC?
    a. There could be a requirement to consolidate financial information.
    b. There are some tax reporting requirements.
    c. There could be firm relationships with affiliates that threaten independence.
    d. Existence of affiliates must be disclosed in the footnotes.
    e. Affiliates compromise independence.

29. A family member hired in a key position of an affiliate of the firm's FSAC could impair independence. What job functions could qualify a person as a "key employee?"
    a. Primary responsibility for significant accounting functions that support material components of the financial statements.
    b. Primary responsibility for preparation of the financial statements.
    c. Ability to exercise influence over the contents of the financial statements.
    d. a and b.
    e. a, b and c.

30. Despite best efforts, a firm cannot obtain sufficient information to determine which entities are affiliates of the FSAC client. The firm should:
    a. Withdraw from the engagement.
    b. Discuss the matter with the FSAC's governing body, document the discussions and obtain written confirmation from the FSAC that it cannot provide the information and continue the engagement.
    c. Make a note in the workpapers and continue the engagement.
    d. Include a footnote in the financials regarding affiliates.
    e. Continue the engagement but engage another firm to review the attest work.

Section VII. Fraud is Suspected: Now What? (Page 15)

31. When encountering suspected fraud, the auditor's primary concern is:
    a. Communicating with legal authorities.
    b. Interviewing the suspected parties.
    c. Documenting any internal control failures.
    d. Determining whether the fraud results in a material misstatement of financial statements.
    e. Withdrawing from the engagement to limit any damage to the firm.

32. In cases of suspected fraud, the auditor should notify:
    a. The local police.
    b. Appropriate members of client's management.
    c. Firm legal counsel.
    d. The entire accounting department.
    e. No one. The auditor has no duty to notify.

33. In considering possible financial statement misstatements resulting from fraud, the auditor should consider:
    a. Reviewing internal controls workpapers.
    b. Interviewing the suspect.
    c. Whether prior years were affected and the effect on beginning net assets.
    d. Withdrawing from the engagement.
    e. Rotating audit staff to another client.

34. If a client does not take fraud allegations seriously:
    a. The auditor may need to withdraw from the engagement.
    b. The fraud will be disclosed in a footnote.
    c. The auditor should offer forensic services (if available).
    d. The auditor is required to withdraw from the engagement.
    e. The auditor may assume management is involved in the fraud.

35. If a forensic investigation report is available for the auditor's review and use, the author reminds us:
    a. Such reports can be highly subjective.
    b. Such reports have little value for the audit.
    c. If any of the information is relied upon, the auditor must avoid independence issues.
    d. Audit firms should always offer forensic services.
    e. The auditor can rely entirely upon the forensic report.

Sections VIII – IX and Exam Questions 36– 50 Relate to the *Journal of Accountancy* – Sept., 2022.

Section VIII. Cybersecurity Risk: Constant Vigilance Required (Page 4)

36. CPA firms have increased the number of "entry points" cybercriminals can use to access sensitive data. These include:
    a. Moving to cloud-based applications and storage.
    b. Expansion of service offerings.
    c. Increasingly mobile workforce.
    d. a and b.
    e. a, b and c.

37. In the case of the small CPA firm whose client's tax refunds were redirected to foreign accounts, the responsible malware likely entered the system through:
    a. A client's thumb drive.
    b. The firm's tax preparation software.
    c. A malicious website or infected email attachment.
    d. A phishing scheme.
    e. The operating system update.

38. A simple safeguard that requires extra information beyond a login and password to access a system is called:
    a. Multifactor authentication.
    b. Dual login authorization.
    c. Dual password login.
    d. Autofill technology.
    e. Multiple entry login.

39. One of the most common entry points for cybercriminals is:
    a. Ransomware.
    b. Unencrypted mobile devices.
    c. The system's wifi.
    d. Phishing.
    e. Software updates.

40. In addition to sound security practices and training, a good data security strategy should include:
    a. Sound hiring practices.
    b. Proper client vetting.
    c. Insurance coverage.
    d. Moving all systems to the cloud.
    e. A paperless office.

Section IX. Handling Sales Tax Nexus Audits (Page 6)

41. In *South Dakota v. Wayfair, Inc.* the U.S. Supreme Court allowed a state to require businesses to collect sales tax:
    a. Only if they had employees in the state.
    b. Only if they owned personal property in the state (eg: delivery trucks).
    c. Only if they owned real property in the state.
    d. Only if the business had employees <u>and</u> property held in the state.
    e. If they had a certain level of sales into the state with <u>no</u> physical presence.

42. The effect of the Supreme Court decision was to replace the previous standard of "physical presence" nexus with a new standard of:
    a. Physical nexus.
    b. Affiliate nexus.
    c. Economic nexus.
    d. Income tax nexus.
    e. Relative location nexus.

43. If a state believes your business might have a sales tax nexus, it will likely:
    a. Commence an audit.
    b. Send a nexus inquiry letter with a questionnaire to fill out.
    c. Request documentation of sales into the state for the last three years.
    d. Assess back taxes based on estimated sales.
    e. Send a postcard to sign and return only if you have nexus.

44. In 2020, your business registered with a state and has been collecting and remitting sales tax ever since. In 2022, your receive an inquiry from the same state. You should:
    a. Discard the notice as it is an obvious error.
    b. Return the notice to the state with a note: "Already registered."
    c. Include the notice with your next monthly sales tax report so the processor can note it in your account.
    d. Fill it out and return it. The state sends these occasionally just to confirm you are still in business.
    e. Take great care to complete and return as the state may use your responses to claim your business should have registered <u>before</u> 2020.

45. Some reasons to take great care in completing a nexus questionnaire include:
    a. The state may determine liability for several <u>back</u> years.
    b. The state may assess "treble damages," or three times the amount of uncollected tax.
    c. The state may determine your company to be liable for <u>other</u> taxes beyond sales tax.
    d. a and c.
    e. a, b and c.

46. In the case of a "yes/no" questionnaire, the author recommends you:
    a. Attach a letter with clarifying details.
    b. Send a letter with all relevant information and do <u>not</u> return the questionnaire.
    c. Return the questionnaire only.
    d. Return the questionnaire and mail a letter at a later date.
    e. Make notes in the margins of the questionnaire to assure the processor sees them, but do <u>not</u> attach a letter.

47. According to the author, if you do not return the questionnaire:
    a. The state will immediately send agents to conduct an audit.
    b. The state may conclude your business has nexus.
    c. The state may conclude your business has nexus <u>and</u> assess an estimate of unpaid taxes.
    d. b and c.
    e. a,b and c.

48. If you believe your business has been assessed in error, the available recourse includes:
    a. Conference with the auditor and the auditor's supervisor.
    b. File an appeal or protest (be aware of deadlines).
    c. Litigation.
    d. a and b.
    e. a, b and c.

49. One related issue that has <u>not</u> been resolved is:
    a. What dollar amount of sales can trigger nexus?
    b. Whether inventory located in a building owned by the business can trigger nexus?
    c. Whether inventory stored in another state by a fulfillment service can trigger nexus?
    d. Whether a certain <u>number</u> of sales into a state can trigger nexus.
    e. Whether a state can compel a business located in another state to collect sales tax.

50. Some benefits of making a voluntary disclosure include:
    a. It starts the statute of limitations running.
    b. The lookback period is usually limited to three or four years.
    c. Having tax obligations resolved helps when selling the business.
    d. a and b.
    e. a, b and c.

Please email, fax or mail your answer sheet to AEA. Our email address: info@accounting-education.com

Thank you for your business and referrals.