

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

**Supplementary Study Guide/Syllabus to Accompany the
Quarterly CPE Exam on
Topics Addressed in the *Journal of Accountancy***

Second Quarter (Jul – Sep), 2022

Instructions:

**Before you start a section of the CPE Final Exam, complete the corresponding section of this
Supplementary Study Guide. Do NOT submit answers to the Review Questions.**

Purpose:

**To provide an interactive learning experience by listing
Learning Objectives and Review Questions with Suggested Answers and Explanations.**

OUTLINE: The section numbers of the Study Guide correspond to section numbers of the Final Exam. The page numbers below refer to the first page of each article in the printed version of the *JofA*.

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)

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

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

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

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

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

Section VI. Untangling Client Affiliates (Page 8)

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

Sections VIII-IX and Exam Questions 36 - 50 Relate to the *Journal of Accountancy* – Sep. 2022:

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

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

The Learning Objectives are stated in each of the following sections.

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

Section I Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 1 through 5.

Section I Learning Objectives:

1. Learn how *Kovel* agreements are structured.
2. Learn the benefits and limitations of *Kovel* agreements.

Section I Review Questions:

1. Protections resulting from client interaction with counsel include:
 - a. Attorney-client privilege.
 - b. Attorney work product privilege.
 - c. Immunity from prosecution.
 - d. a and b.
 - e. a, b and c.
2. Tax practitioners can enjoy equal client privilege as attorney-client privilege by relying upon Internal Revenue Code Sec. 7525.
 - a. True. The Sec. 7525 protections are robust.
 - b. False. The Sec. 7525 protections have significant shortcomings.
3. The purpose of a *Kovel* agreement is to bring under protection of attorney-client privilege:
 - a. Discussions between the client and attorney.
 - b. Discussions between the CPA and client to underreport income on the tax return.
 - c. All work performed by CPAs and other third parties to the agreement.
 - d. a and b.
 - e. a, b and c.
4. Under a *Kovel* agreement, fees for work performed by the CPA are generally paid by the attorney.
 - a. True. Attorneys must pay the fees to maintain attorney-client privilege.
 - b. False. Fees are generally paid by the client.
5. Which of the following actions by the CPA could cause a loss of privileges provided by a *Kovel* agreement?
 - a. Sharing documents with a third party.
 - b. Discussion of case details with the engaging attorney.
 - c. Discussion of case details with close CPA friends who are not part of the engagement team.
 - d. a and b.
 - e. a and c.

Section I Solutions and Suggested Responses to Review Questions appear on the next page.

Section I Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 4 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. a and b are correct, but not c.
- d. **Correct.** a and b are correct, but not c.
- e. Incorrect. a and b are correct, but not c.

Review Question 2. (Please see page 4 of the July, 2022 *JofA*.)

- a. Incorrect. Sec. 7525 protections have limitations.
- b. **Correct.** Sec. 7525 protections have limitations.

Review Question 3: (Please see page 4 of the July, 2022 *JofA*.)

- a. Incorrect. Attorney-client discussions are already protected.
- b. Incorrect. Attorney-client privilege does not protect communications to further criminal activities.
- c. **Correct.** All work performed by CPAs and other third parties are protected under a *Kovel* agreement
- d. Incorrect. a and b are incorrect.
- e. Incorrect. c is correct, but not a and b.

Review Question 4. (Please see page 5 of the July, 2022 *JofA*.)

- a. Incorrect. The client generally pays the CPA's fees.
- b. **Correct.** The client generally pays the CPA's fees.

Review Question 5. (Please see page 5 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. Discussions with the engaging attorney have attorney-client privilege.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. a is correct, but not b.
- e. **Correct.** a and c are correct, but not b.

=====End of Section I.

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

Section II Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 6 through 10.

Section II Learning Objectives:

1. Learn about recently released Statements on Attestation Engagements (SSAE).
2. Learn the differences between the services governed by the new SSAE's and the requirements.

Section II Review Questions:

1. An engagement that allows the CPA to draw reasonable conclusions upon which an opinion is issued would be a(n) _____ engagement.
 - a. Agreed-upon-procedures.
 - b. Review.
 - c. Examination.
 - d. Audit.
 - e. Consulting.
2. Engagements resulting in issuance of an opinion or conclusion about historical financial statements are conducted in accordance with:
 - a. Statements on Auditing Standards.
 - b. Statements on Standards for Accounting and Review Services.
 - c. Statements on Standards for Attestation Engagements.
 - d. a and b.
 - e. a, b and c.
3. Engagements that could be carried out under the new attestation standards would include determining whether a client's:
 - a. Labor practices meet Fair Labor Standards Act requirements.
 - b. Product performance metrics meet criteria established by an industry group.
 - c. Financial statements are fairly presenting in accordance with GAAP.
 - d. a, b and c.
 - e. a and b only.
4. A representation letter is not needed in an attestation engagement because the CPA does not issue and opinion.
 - a. True. Representation letters are only required for audits.
 - b. False. Representation letters are still needed.
5. In selecting the appropriate service, the CPA must first help the client determine whether they need:
 - a. An audit or review.
 - b. An examination or review.
 - c. Advice or assurance.
 - d. An assertion or assurance.
 - e. Agreed-upon-procedures or a review.

Section II Solutions and Suggested Responses to Review Questions appear on the next page.

Section II Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 7 of the July, 2022 *JofA*.)

- a. Incorrect. Examination engagement.
- b. Incorrect. Examination engagement.
- c. **Correct.** Examination engagement.
- d. Incorrect. Examination engagement.
- e. Incorrect. Examination engagement.

Review Question 2. (Please see page 7 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. a and b are correct, but not c.
- d. **Correct.** a and b are correct, but not c.
- e. Incorrect. a and b are correct, but not c.

Review Question 3. (Please see page 7 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. a and b are correct, but not c.
- d. Incorrect. a and b are correct, but not c.
- e. **Correct.** a and b are correct, but not c.

Review Question 4. (Please see page 7 of the July, 2022 *JofA*.)

- a. Incorrect. Representation letters are necessary in attestation engagements.
- b. **Correct.** Representation letters are necessary in attestation engagements.

Review Question 5. (Please see page 10 of the July, 2022 *JofA*.)

- a. Incorrect. The CPA should determine if the client needs advice or assurance.
- b. Incorrect. The CPA should determine if the client needs advice or assurance.
- c. **Correct.** The CPA should determine if the client needs advice or assurance.
- d. Incorrect. The CPA should determine if the client needs advice or assurance.
- e. Incorrect. The CPA should determine if the client needs advice or assurance.

=====End of Section II.

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

Section III Assignment:

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 11 through 15.

Section III Learning Objectives:

1. Learn provisions of a recent revised interpretation: “State and Local Government Client Affiliates” and how auditor independence may be compromised.
2. Learn how to identify affiliates and how to protect independence.

Section III Review Questions:

1. The AICPA Professional Ethics Executive Committee (PEEC) delayed implementation of its interpretation “State and Local Government Client Affiliates” until:
 - a. Dec. 15, 2020.
 - b. Dec. 31, 2020.
 - c. Dec. 15, 2021.
 - d. Dec. 31, 2021.
 - e. Dec. 15, 2022.
2. To help CPAs determine which entities should be considered affiliates of their attest clients the PEEC released:
 - a. GASB Statement No. 34.
 - b. Independence Rule ET Sec. 1.200.001.
 - c. FSAC Statement No. 34.
 - d. An implementation guide with decisions trees and tools.
 - e. A database listing recognized affiliates of most state and local governments.
3. The revised interpretation defines _____ types of affiliates of state and local government (SLG) financial statement attest clients (FSAC)
 - a. Two.
 - b. Three.
 - c. Four.
 - d. Five.
 - e. Six.
4. Many entities and investments will not be considered affiliates of the FSAC because:
 - a. LSGs rarely have affiliates.
 - b. Most entities or investments do not qualify as an affiliate.
 - c. By law, most LSGs are prevented from engaging affiliates.
 - d. Many affiliates are disregarded due to thresholds of materiality, control or influence.
 - e. None of the above.
5. Investments which are not considered an affiliate include:
 - a. Temporary investments.
 - b. Equity interests in entities providing governmental services.
 - c. Assets held for income of profit.
 - d. a, b and c.
 - e. a and b only.

Section III Solutions and Suggested Responses to Review Questions appear on the next page.

Section III Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 13 of the July, 2022 *JofA*.)

- a. Incorrect. Dec. 15, 2021.
- b. Incorrect. Dec. 15, 2021.
- c. **Correct.** Dec. 15, 2021.
- d. Incorrect. Dec. 15, 2021.
- e. Incorrect. Dec. 15, 2021.

Review Question 2. (Please see page 13 of the July, 2022 *JofA*.)

- a. Incorrect. The PEEC released an implementation guide.
- b. Incorrect. The PEEC released an implementation guide.
- c. Incorrect. The PEEC released an implementation guide.
- d. **Correct.** The PEEC released an implementation guide.
- e. Incorrect. The PEEC released an implementation guide.

Review Question 3. (Please see page 14 of the July, 2022 *JofA*.)

- a. Incorrect. There are four types of affiliates.
- b. Incorrect. There are four types of affiliates.
- c. **Correct.** There are four types of affiliates.
- d. Incorrect. There are four types of affiliates.
- e. Incorrect. There are four types of affiliates.

Review Question 4. (Please see page 14 of the July, 2022 *JofA*.)

- a. Incorrect. Many affiliates are disregarded due to thresholds of materiality, control or influence.
- b. Incorrect. Many affiliates are disregarded due to thresholds of materiality, control or influence.
- c. Incorrect. Many affiliates are disregarded due to thresholds of materiality, control or influence.
- d. **Correct.** Many affiliates are disregarded due to thresholds of materiality, control or influence.
- e. Incorrect. Many affiliates are disregarded due to thresholds of materiality, control or influence.

Review Question 5. (Please see page 16 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. a and b only.
- d. Incorrect. a and b only.
- e. **Correct.** a and b only.

=====End of Section III.

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

Section IV Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 16 through 20.

Section IV Learning Objectives:

1. Learn about some of the unique characteristics of cryptoassets.
2. Learn some of the challenges in accounting and tracking cryptoassets.

Section IV Review Questions:

1. According to a 2021 worldwide survey of finance professionals, more than _____ considered adopting blockchain and cryptoassets as a potential competitive advantage.
 - a. 50%.
 - b. 60%.
 - c. 70%.
 - d. 75%.
 - e. 80%.
2. For accountants dealing with cryptoassets, there is:
 - a. Some tax guidance.
 - b. No tax guidance.
 - c. No authoritative accounting or auditing guidance.
 - d. a and c.
 - e. b and c.
3. Carrying cryptoassets on the books:
 - a. Is easily handled with any off-the-shelf accounting software.
 - b. Requires customized add-ons to traditional enterprise resource planning (ERP) systems.
 - c. Requires checking certain preference boxes when installing ERP software.
 - d. Must be out-sourced to third party providers.
 - e. Can only be handled with manual calculations and journal entries.
4. Digital assets are generally considered:
 - a. Currency.
 - b. Current assets, similar to investments.
 - c. Intangibles.
 - d. Long term marketable securities.
 - e. Long term assets subject to depreciation.
5. Cryptoasset services now available to retail customers include:
 - a. ATMs.
 - b. Credit cards.
 - c. Prepaid gift cards.
 - d. Digital wallets.
 - e. All of the above.

Section IV Solutions and Suggested Responses to Review Questions follow on the next page.

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 27 of the July, 2022 *JofA*.)

- a. Incorrect. 70% considered using cryptoassets as a potential competitive advantage.
- b. Incorrect. 70% considered using cryptoassets as a potential competitive advantage.
- c. **Correct.** 70% considered using cryptoassets as a potential competitive advantage.
- d. Incorrect. 70% considered using cryptoassets as a potential competitive advantage.
- e. Incorrect. 70% considered using cryptoassets as a potential competitive advantage.

Review Question 2. (Please see page 27 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. a and c are correct.
- c. Incorrect. This is part of, but not the most complete answer.
- d. **Correct.** a and c are correct.
- e. Incorrect. a and c are correct.

Review Question 3. (Please see page 27 of the July 2022 *JofA*.)

- a. Incorrect. Accounting for cryptoasset requires customized add-ons to traditional ERP systems.
- b. **Correct.** Accounting for cryptoasset requires customized add-ons to traditional ERP systems.
- c. Incorrect. Accounting for cryptoasset requires customized add-ons to traditional ERP systems.
- d. Incorrect. Accounting for cryptoasset requires customized add-ons to traditional ERP systems.
- e. Incorrect. Accounting for cryptoasset requires customized add-ons to traditional ERP systems.

Review Question 4. (Please see page 28 of the July, 2022 *JofA*.)

- a. Incorrect. Digital assets are considered intangibles.
- b. Incorrect. Digital assets are considered intangibles.
- c. **Correct.** Digital assets are considered intangibles.
- d. Incorrect. Digital assets are considered intangibles.
- e. Incorrect. Digital assets are considered intangibles.

Review Question 5. (Please see page 29 of the July, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. This is part of, but not the most complete answer.
- e. **Correct.** a, b, c and d are correct.

===== **End of Section IV.**

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

Section V Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 21 through 25.

Section V Learning Objectives:

1. Learn which practice areas attracted the most malpractice claims.
2. Learn about the types of errors causing claims.
3. Consider how this information may be useful in your practice.

Section V Review Questions:

1. Tax claims that can be more expensive than simple filing errors include:
 - a. Aggressive tax strategies.
 - b. Filing obligations related to foreign income or assets.
 - c. Estate and gift tax returns.
 - d. Employment tax filings.
 - e. a, b and c.
2. Areas of practice that typically result in high-severity claims include:
 - a. Audit services.
 - b. Accounting and bookkeeping services.
 - c. Income tax preparation.
 - d. Consulting services.
 - e. Payroll preparation services.
3. There is potential for increasing claims against CPAs because of:
 - a. Changes in filing dates.
 - b. Legislation enacted before and during tax season.
 - c. New services requested as a result of new legislation.
 - d. a and b.
 - e. a, b and c.
4. The volume of 2021 audit and attest services claims were down nearly 50% compared to 2020. The author notes this may have been due to:
 - a. Increased audit risk procedures employed by CPA firms.
 - b. A new program initiated by the insurance carrier to educate CPAs on assessing risk.
 - c. The courts were closed or partially open in 2020 and 2021.
 - d. There were fewer audit and attest service engagements during 2020 and 2021.
 - e. A shortage of trial attorneys who handle audit or attest claims.
5. Claims related to consulting services filed in 2021:
 - a. Were down 10% compared to 2020.
 - b. Were about the same as 2020.
 - c. Increased 10% compared to 2020.
 - d. Increased 25% compared to 2020.
 - e. Increased 50% compared to 2020.

Section V Solutions and Suggested Responses to Review Questions appear on the next page.

Section V Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 4 of the August, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. a, b and c are correct.
- e. **Correct.** a, b and c are correct.

Review Question 2. (Please see page 4 of the August, 2022 *JofA*.)

- a. **Correct.** Audit services can attract high-severity claims.
- b. Incorrect. Audit services can attract high-severity claims.
- c. Incorrect. Audit services can attract high-severity claims.
- d. Incorrect. Audit services can attract high-severity claims.
- e. Incorrect. Audit services can attract high-severity claims.

Review Question 3. (Please see page 5 of the August, 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. This is part of, but not the most complete answer.
- e. **Correct.** a, b and c are correct.

Review Question 4: (Please see page 5 of the August, 2022 *JofA*.)

- a. Incorrect. The courts were closed or partially open in 2020 and 2021.
- b. Incorrect. The courts were closed or partially open in 2020 and 2021.
- c. **Correct.** The courts were closed or partially open in 2020 and 2021.
- d. Incorrect. The courts were closed or partially open in 2020 and 2021.
- e. Incorrect. The courts were closed or partially open in 2020 and 2021.

Review Question 5: (Please see page 6 of the August, 2022 *JofA*.)

- a. Incorrect. Claims related to consulting services increased 50%.
- b. Incorrect. Claims related to consulting services increased 50%.
- c. Incorrect. Claims related to consulting services increased 50%.
- d. Incorrect. Claims related to consulting services increased 50%.
- e. **Correct.** Claims related to consulting services increased 50%.

===== **End of Section V.**

Section VI. Untangling Client Affiliates (Page 8)

Section VI Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 26 through 30.

Section VI Learning Objectives:

1. Learn about different types of client affiliates.
2. Learn what measures to take to avoid impairing independence.

Section VI Review Questions:

1. A firm is required to identify all affiliates of its _____ clients.
 - a. Consulting.
 - b. Bookkeeping.
 - c. Financial Statement Attest Clients (FSAC).
 - d. Agreed-upon-procedures clients.
 - e. Tax preparation.
2. The definition of types of FSAC affiliates can be found in the AICPA *Code of Professional Conduct*:
 - a. ET Sec. 0.400.01
 - b. ET Sec. 0.400.02
 - c. ET Sec. 0.400.16
 - d. ET Sec. 0.401.00
 - e. ET Sec. 0.402.01
3. How many examples of affiliates of a FSAC client are provided in the definitions section of the *Code of Professional Conduct*?
 - a. Six (items a-f).
 - b. Eight (items a-h).
 - c. Ten (items a-j).
 - d. Twelve (items a-l).
 - e. Fourteen (items a-n).
4. How do independence rules apply to affiliates of an FSAC?
 - a. They do not apply to affiliates, just to clients.
 - b. They apply only to affiliates 100% owned by the FSAC.
 - c. They apply only to affiliates that are consolidated with the FSAC client.
 - d. The rules apply the same as to clients (with some exceptions).
 - e. They require documentation of lack of independence but no measures to mitigate.
5. The *Code of Professional Conduct* requires firms to use _____ to obtain information needed to identify affiliates.
 - a. Best efforts.
 - b. Reasonable efforts.
 - c. Commercially reasonable efforts.
 - d. All available resources.
 - e. Standard efforts.

Section VI Solutions and Suggested Responses to Review Questions appear on the next page.

Section VI Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 9 of the August, 2022 *JofA*.)

- a. Incorrect. Affiliates of Financial Statement Attest Clients (FSAC) must be identified.
- b. Incorrect. Affiliates of Financial Statement Attest Clients (FSAC) must be identified.
- c. **Correct.** Affiliates of Financial Statement Attest Clients (FSAC) must be identified.
- d. Incorrect. Affiliates of Financial Statement Attest Clients (FSAC) must be identified.
- e. Incorrect. Affiliates of Financial Statement Attest Clients (FSAC) must be identified.

Review Question 2: (Please see page 9 of the August, 2022 *JofA*.)

- a. Incorrect. ET Sec. 0.400.02 lists the types of affiliates.
- b. **Correct.** ET Sec. 0.400.02 lists the types of affiliates.
- c. Incorrect. ET Sec. 0.400.02 lists the types of affiliates.
- d. Incorrect. ET Sec. 0.400.02 lists the types of affiliates.
- e. Incorrect. ET Sec. 0.400.02 lists the types of affiliates.

Review Question 3: (Please see page 9 of the August, 2022 *JofA*.)

- a. Incorrect. Twelve (items a-l) are identified.
- b. Incorrect. Twelve (items a-l) are identified.
- c. Incorrect. Twelve (items a-l) are identified.
- d. **Correct.** Twelve (items a-l) are identified.
- e. Incorrect. Twelve (items a-l) are identified.

Review Question 4: (Please see page 10 of the August, 2022 *JofA*.)

- a. Incorrect. Independence rules apply to the client and affiliates, with some exceptions.
- b. Incorrect. Independence rules apply to the client and affiliates, with some exceptions.
- c. Incorrect. Independence rules apply to the client and affiliates, with some exceptions.
- d. **Correct.** Independence rules apply to the client and affiliates, with some exceptions.
- e. Incorrect. Independence rules apply to the client and affiliates, with some exceptions.

Review Question 5: (Please see page 12 of the August, 2022 *JofA*.)

- a. **Correct.** Firms must use their best efforts to obtain information needed to identify affiliates.
- b. Incorrect. Firms must use their best efforts to obtain information needed to identify affiliates.
- c. Incorrect. Firms must use their best efforts to obtain information needed to identify affiliates.
- d. Incorrect. Firms must use their best efforts to obtain information needed to identify affiliates.
- e. Incorrect. Firms must use their best efforts to obtain information needed to identify affiliates.

===== **End of Section VI**

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

Section VII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 31 through 35.

Section VII Learning Objectives:

1. Learn about measures to take when fraud is suspected during an audit.
2. Consider the author's list of recommended questions to ask while gathering information.

Section VII Review Questions:

1. When encountering suspected fraud during an audit, CPAs can look to _____ for guidance.
 - a. AU-C Section 140.
 - b. AU-C Section 200.
 - c. AU-C Section 220.
 - d. AU-C Section 240.
 - e. AU-C Section 260.
2. The legal determination of whether a fraud has occurred is made by:
 - a. The client.
 - b. The partner in charge of the engagement.
 - c. The client's legal counsel.
 - d. A judge or jury.
 - e. The client's board of directors.
3. How a client responds to a fraud allegation will directly affect:
 - a. How the auditor should respond.
 - b. The engagement billing.
 - c. How the guilty party will be punished.
 - d. The profitability of the entity.
 - e. Employee retention.
4. Among the author's key questions, one that may reveal a worst-case scenario is:
 - a. Who is the suspect?
 - b. Who will investigate?
 - c. What period is under suspicion?
 - d. How long has the suspect been employed with the client?
 - e. What disciplinary measures have been taken?
5. If the audit can be finished, the author advises:
 - a. The fraud should be disclosed in the financials.
 - b. The auditors should rely on the work of a forensic examiner.
 - c. A management letter comment may be necessary.
 - d. Mention of the fraud should not be in the workpapers.
 - e. The firm should consider offering its outsourced accounting services to the client.

Section VII Solutions and Suggested Responses to Review Questions appear on the next page.

Section VII Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 15 of the August, 2022 *JofA*.)

- a. Incorrect. AU-C Section 140.
- b. Incorrect. AU-C Section 140.
- c. Incorrect. AU-C Section 140.
- d. **Correct.** AU-C Section 140.
- e. Incorrect. AU-C Section 140.

Review Question 2: (Please see page 15 of the August, 2022 *JofA*.)

- a. Incorrect. A judge or jury determines whether a fraud occurred.
- b. Incorrect. A judge or jury determines whether a fraud occurred.
- c. Incorrect. A judge or jury determines whether a fraud occurred.
- d. **Correct.** A judge or jury determines whether a fraud occurred.
- e. Incorrect. A judge or jury determines whether a fraud occurred.

Review Question 3: (Please see pages 17 of the August, 2022 *JofA*.)

- a. **Correct.** The client's response will effect how the auditor should respond.
- b. Incorrect. The client's response will effect how the auditor should respond.
- c. Incorrect. The client's response will effect how the auditor should respond.
- d. Incorrect. The client's response will effect how the auditor should respond.
- e. Incorrect. The client's response will effect how the auditor should respond.

Review Question 4: (Please see page 17 of the August, 2022 *JofA*.)

- a. Incorrect. How long has the suspect been employed?
- b. Incorrect. How long has the suspect been employed?
- c. Incorrect. How long has the suspect been employed?
- d. **Correct.** How long has the suspect been employed?
- e. Incorrect. How long has the suspect been employed?

Review Question 5: (Please see page 18 of the August, 2022 *JofA*.)

- a. Incorrect. A management letter comment may be necessary.
- b. Incorrect. A management letter comment may be necessary.
- c. **Correct.** A management letter comment may be necessary.
- d. Incorrect. A management letter comment may be necessary.
- e. Incorrect. A management letter comment may be necessary.

===== **End of Section VII**

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

Section VIII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 36 through 40.

Section VIII Learning Objectives:

1. Learn about some cybersecurity risks CPAs can face through three case examples.
2. Learn some of the author's recommendations to prevent or avoid certain attacks.

Section VIII Review Questions:

2. CPA firms are targets of cyberthreats because they:
 - a. Generally do not use the latest technology.
 - b. Often handle banking transactions on behalf of clients.
 - c. Often deal with cash customers.
 - d. Receive, use and store sensitive client data.
 - e. Often handle client's investment needs.
2. In the case where the CPA followed email instructions and paid client vendors by wire transfer and the instructions were determined to be fraudulent, what advice would the author give the CPA?
 - a. Avoid offering bill-paying services.
 - b. Never pay by wire transfer.
 - c. Pay by check only.
 - d. Pay by credit card only.
 - e. Confirm email instructions verbally using a known telephone number.
3. In addition to enduring the cost of time and money to recover from a ransomware attack, the large CPA firm also:
 - a. Could not complete client services (until the system could be restored or unlocked).
 - b. Had client data exposed (to the malware attacker).
 - c. Had to notify clients their information may have been compromised.
 - d. Suffered a blow to its reputation.
 - e. All of the above.
4. The help recover from a ransomware attack, the author recommends:
 - a. Using an automatic, regularly scheduled system backup to a secure, offsite location.
 - b. Keeping system backups on a separate harddrive stored on site.
 - c. Performing some restoration tests to assure the backup files can be accessed when needed.
 - d. a and b.
 - e. a and c.
5. Regarding the use of mobile devices, such as laptops, tablets and cellphones, the author recommends:
 - a. Limiting use of these devices.
 - b. Encrypting these devices.
 - c. Enabling remote disabling and wiping to remove sensitive data if lost.
 - d. a, b and c.
 - e. b and c only.

Section VIII Solutions and Suggested Responses to Review Questions appear on the next page.

Section VIII Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 4 of the Sept., 2022 *JofA*.)

- a. Incorrect. CPAs receive, use and store sensitive client data.
- b. Incorrect. CPAs receive, use and store sensitive client data.
- c. Incorrect. CPAs receive, use and store sensitive client data.
- d. **Correct.** CPAs receive, use and store sensitive client data.
- e. Incorrect. CPAs receive, use and store sensitive client data.

Review Question 2: (Please see page 4 & 5 of the Sept., 2022 *JofA*.)

- a. Incorrect. The CPA should confirm email instructions verbal using a known telephone number.
- b. Incorrect. The CPA should confirm email instructions verbal using a known telephone number.
- c. Incorrect. The CPA should confirm email instructions verbal using a known telephone number.
- d. Incorrect. The CPA should confirm email instructions verbal using a known telephone number.
- e. **Correct.** The CPA should confirm email instructions verbal using a known telephone number.

Review Question 3: (Please see page 4 of the Sept., 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. This is part of, but not the most complete answer.
- e. **Correct.** a, b, c and d are correct.

Review Question 4: (Please see page 4 of the Sept., 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. a and c are correct, but not b.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. a and c are correct, but not b.
- e. **Correct.** a and c are correct, but not b.

Review Question 5: (Please see page 5 of the Sept., 2022 *JofA*.)

- a. Incorrect. b and c are correct, but not a.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. b and c are correct, but not a.
- e. **Correct.** b and c are correct, but not a.

===== **End of Section VIII**

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

Section VIII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 41 through 50.

Section IX Learning Objectives:

1. Learn about potential issues when responding to a state's sales tax inquiry.
2. Learn about issues related to third party fulfillment services.

Section IX Review Questions:

1. The degree of contact a person or entity must have with a jurisdiction to be subject to its sales tax is referred to as:
 - a. Tax liability.
 - b. Tax trigger.
 - c. Tax nexus.
 - d. Sales tax registration.
 - e. Tax basis.
2. When a state contacts a business about potential sales tax responsibility:
 - a. They usually will already have some idea about the company's activities in the state.
 - b. They send these notices occasionally to a sample of businesses registered in the state, just to review and verify the responses.
 - c. It is usually just a standard inquiry letter sent every few years.
 - d. It means the business has already been selected for audit.
 - e. It is a standard letter sent to every business that files an income tax return in the state.
3. One issue with nexus questionnaires is:
 - a. Many of the questions are in legal jargon and you may need an attorney's help.
 - b. Many of the questions are outdated or do not apply, but you must reply to all questions.
 - c. There is a short deadline to return that is difficult to meet.
 - d. The questions are often "yes/no" and leave no room for additional information.
 - e. Many of the questions are vague or open-ended by design to prompt lengthy, revealing responses.
4. All states inform the business of the consequences of not completing the questionnaire.
 - a. True. All states make that clear.
 - b. False. Not all states provide that information.
5. If a questionnaire is not returned, the state may determine the business has nexus and assess tax based upon information it has at the time. The state could also ignore information the business submits later that shows it is below the threshold.
 - a. True. A state may ignore information submitted after assessment when the questionnaire was not returned.
 - b. False. That would be unfair and unethical.
6. States may assess tax based upon information they already have and some states may:
 - a. Pursue collection against the business and all officers.
 - b. Immediately levy bank balances or garnish wages.
 - c. Refuse to provide the business the information they used to calculate the assessment.
 - d. Close the business until the assessment is paid.
 - e. Allow the business to operate during a one year probationary period while they monitor sales tax reporting.

7. Your business is assessed for uncollected sales tax. You've met with the auditor and supervisor but they refuse to adjust the assessment. You are considering filing an appeal with the state tax department. Which of the following are true?
 - a. You must file the appeal before the deadline.
 - b. All appeals must be filed by April 15 of the following year.
 - c. If you fail to file the appeal, you may lose any right to challenge the assessment.
 - d. a and b.
 - e. a and c.
8. For some businesses, the biggest nexus issue is the use of fulfillment services such as Amazon to sell and distribute products. Some of the uncertainty relates to the fact that:
 - a. Amazon has difficulty tracking sales by state.
 - b. Amazon does not collect sales tax.
 - c. All inventory resides in locations owned by the individual businesses.
 - d. Amazon moves inventory without notifying the business but may respond to a state nexus inquiry regarding the inventory.
 - e. Amazon does not respond to nexus questionnaires.
9. The author believes that having inventory in a state because of fulfillment services such as Amazon legally should not create nexus.
 - a. True.
 - b. False.
10. One preemptive measure a business may employ to mitigate risk would be:
 - a. File an appeal.
 - b. Request a nexus inquiry letter.
 - c. Avoid using fulfillment services.
 - d. File a voluntary disclosure.
 - e. File a discretionary disclosure.

Section XI Solutions and Suggested Responses to Review Questions appear on the next page.

Section XI Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 7 of the Sept., 2022 *JofA*.)

- a. Incorrect. Tax nexus.
- b. Incorrect. Tax nexus.
- c. **Correct.** Tax nexus.
- d. Incorrect. Tax nexus.
- e. Incorrect. Tax nexus.

Review Question 2: (Please see page 7 of the Sept., 2022 *JofA*.)

- a. **Correct.** The state will usually already have some idea about the company's activities.
- b. Incorrect. The state will usually already have some idea about the company's activities.
- c. Incorrect. The state will usually already have some idea about the company's activities.
- d. Incorrect. The state will usually already have some idea about the company's activities.
- e. Incorrect. The state will usually already have some idea about the company's activities.

Review Question 3: (Please see page 8 of the Sept., 2022 *JofA*.)

- a. Incorrect. The questions are often “yes/no” with no room for additional information.
- b. Incorrect. The questions are often “yes/no” with no room for additional information.
- c. Incorrect. The questions are often “yes/no” with no room for additional information.
- d. **Correct.** The questions are often “yes/no” with no room for additional information.
- e. Incorrect. The questions are often “yes/no” with no room for additional information.

Review Question 4: (Please see page 8 of the Sept., 2022 *JofA*.)

- a. Incorrect. Not all states explain the consequences of not returning the questionnaire.
- b. **Correct.** Not all states explain the consequences of not returning the questionnaire.

Review Question 5: (Please see page 8 of the Sept., 2022 *JofA*.)

- a. **Correct.** The state may disregard information that was not submitted timely.
- b. Incorrect. The state may disregard information that was not submitted timely.

Review Question 6: (Please see pages 8-9 of the Sept., 2022 *JofA*.)

- a. Incorrect. Some states may refuse to provide the information they used to calculate an assessment.
- b. Incorrect. Some states may refuse to provide the information they used to calculate an assessment.
- c. **Correct.** Some states may refuse to provide the information they used to calculate an assessment.
- d. Incorrect. Some states may refuse to provide the information they used to calculate an assessment.
- e. Incorrect. a, b and c are correct.

Review Question 7: (Please see page 9 of the Sept., 2022 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. Generally, appeals deadlines are unique to the case and not an annual deadline.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. a and c are correct, but not b.
- e. **Correct.** a and c are correct, but not b.

Review Question 8: (Please see page 9 of the Sept., 2022 *JofA*.)

- a. Incorrect. Amazon moves inventory to different locations as needed, without the knowledge of the business.
- b. Incorrect. Amazon moves inventory to different locations as needed, without the knowledge of the business.
- c. Incorrect. Amazon moves inventory to different locations as needed, without the knowledge of the business.
- d. **Correct.** Amazon moves inventory to different locations as needed, without the knowledge of the business.
- e. Incorrect. Amazon moves inventory to different locations as needed, without the knowledge of the business.

Review Question 9. (Please see page 9 of the Sept., 2022 *JofA*.)

- a. **Correct.** The author believes location inventory via fulfillment service should not create nexus.
- b. Incorrect. The author believes location inventory via fulfillment service should not create nexus.

Review Question 10. (Please see pages 9-10 of the Sept., 2022 *JofA*.)

- a. Incorrect. File a voluntary disclosure.
- b. Incorrect. File a voluntary disclosure.
- c. Incorrect. File a voluntary disclosure.
- d. **Correct.** File a voluntary disclosure.
- e. Incorrect. File a voluntary disclosure.

===== **End of Section XI**