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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Fourth Quarter (Oct – Dec), 2022 (Course # 2204)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Audit 1, IT 2, Prac. Mgt. 2, Tax 5

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 must be submitted to AEA by
05/27/2025.****

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Date completed: _____

“Always remember you are absolutely unique, just like everyone else.”
...Margaret Mead, American cultural anthropologist

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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Scan/Email, fax or mail your answer sheets to us:

Email: info@accounting-education.com

Telephone: 1-800-CPE-EXAM (1-800-273-3926)

Fax: 1-800-645-1099

Mail: PO Box 4192
Greensboro, NC 27404

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.

PROGRAM SPONSOR AGREEMENTS:

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PRICES:

The price of a **Quarterly CPE Exam** is \$49, with lower prices when an order involves four or more courses:

Price per course for orders of 1 to 3 courses:	\$49
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

TWO PAYMENT OPTIONS:

Credit card: Click the secure PayPal link on our Web site and at the “PayPal Guest Checkout” option, enter your credit card information. Please do not send us credit credit information as AEA no longer accepts or processes credit cards.

Check: Mail a check to the PO box indicated to the left.

Exams will be graded when received regardless of payment method.

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Receive \$10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

Payment Voucher: Please complete and submit this form with your downloaded Exam(s).

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Name _____

Firm (If part of 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____
_____	Second Quarter (April - June), 20____
_____	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.)

_____ By using the secure PayPal link on our Web site to pay
with favorite credit card (Visa, MasterCard, Amex or Discover)

PLEASE DO NOT SEND CREDIT CARD# TO AEA.

Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.

Sections I–III and Exam Questions 1–25 Relate to the *Journal of Accountancy* – October, 2022.

Section I. What's Your Fraud IQ? (Page 12)

1. In a business email compromise scam, a fraudster poses as the owner or official of the business and sends an urgent request to:
 - a. Pay an invoice.
 - b. Verify banking information.
 - c. Forward an invoice to the appropriate official for approval.
 - d. Verify the vendor information on the attached invoice.
 - e. Suspend payments to a named vendor.
2. A billing scheme in which an employee creates a fraudulent invoice from a fabricated vendor is called :
 - a. An electronic tampering scheme.
 - b. A passthrough scheme.
 - c. A fictitious vendor scheme.
 - d. An expired vendor scheme.
 - e. A shell company scheme.
3. An invoice displaying only a post office box as the address could indicate:
 - a. A foreign corporation.
 - b. A shell corporation.
 - c. A passthrough scheme.
 - d. A passthrough corporation.
 - e. A valid corporation.
4. One simple procedure to help prevent payment of a duplicate invoice is:
 - a. Check if the same invoice number has been submitted.
 - b. Check for other invoices on the same date.
 - c. Check for other invoices with the same amount.
 - d. Contact the vendor to affirm the invoice has not been paid.
 - e. All of the above.
5. Shell company schemes often involve the purchase of services rather than goods because:
 - a. Service invoices are generally smaller amounts and are more likely to avoid scrutiny.
 - b. All businesses purchase services, but not many purchase goods.
 - c. It is harder to verify whether services were received.
 - d. a and b.
 - e. a, b and c.

Section II. What CPAs Need to Know about NFTs (Page 23)

6. NPTs are a _____.
 - a. Type of digital currency.
 - b. Type of blockchain technology.
 - c. Type of firewall protection.
 - d. Method of demonstrating ownership.
 - e. Type of digital currency exchange.
7. NFTs can be used to show ownership of:
 - a. Physical assets.
 - b. Digital assets.
 - c. Intangible assets.
 - d. a and c.
 - e. a, b and c.

8. NFTs have two distinct traits, including:
 - a. They are unique and act as currency.
 - b. They are not unique and difficult to replicate.
 - c. They are not unique and set the value for similar items, such as concert tickets.
 - d. They are unique and always linked to an item.
 - e. They are not unique and linked to an item.
9. NFTs are nonfungible because of complex encryption techniques that assign a unique ID to the underlying asset. The ID is called a:
 - a. Hash value.
 - b. Hash total.
 - c. Hash ID.
 - d. Hash label.
 - e. Digital ID.
10. The most common type of NFTs in existence in 2022 were those linked to:
 - a. Automobile titles.
 - b. Mortgage loans.
 - c. Graphic art files (eg. JPEG).
 - d. Patents.
 - e. Trademarks and copyrights.
11. NFTs are created through a process called:
 - a. Mining.
 - b. Minting.
 - c. Coding.
 - d. Validation.
 - e. Recoding.
12. Platforms that create NFTs leverage smart contracts, which are automated executable programs that enable:
 - a. Creation of NFTs and their ongoing operation.
 - b. Subsequent sales and transfers.
 - c. Manage the owner's cryptocurrency account.
 - d. a and b.
 - e. a, b and c.
13. According to the AICPA's Digital Assets Working Group's practice aid, *Accounting and Auditing of Digital Assets*, digital assets are generally classified as:
 - a. Currency.
 - b. Other current assets.
 - c. Intangible assets, indefinite life.
 - d. Fixed assets, 15 year life.
 - e. Other noncurrent assets.
14. The authors classify NFTs into four groups. The most common type of NFT is currently:
 - a. Single use.
 - b. Reusables.
 - c. Perpetuals.
 - d. Tangible personal property.
 - e. Real assets.
15. Reusable NFTs can be bought and resold. And example of a reusable NFT would be:
 - a. Renewable memberships.
 - b. Domain names.
 - c. Memes (GIFs).
 - d. Virtual event tickets.
 - e. Real assets.

Section III. Tax Matters (Page 30)

16. Public Law (P.L.) 86-272 can protect an entity from a state's income tax obligation if:
 - a. The entity's only activity in the state is solicitation of sales of tangible personal property.
 - b. Any orders resulting from solicitation efforts are approved and shipped from outside the state.
 - c. The entity declines to collect and remit the state's sales tax on the sales.
 - d. a and b.
 - e. b and c.
17. P.L. 86-272 was enacted to reverse the effects of:
 - a. The Interstate Income Act of 1959.
 - b. A U.S. Supreme Court decision allowing Minnesota to impose income tax on an Iowa-based cement producer whose only presence was soliciting sales.
 - c. The Multistate Tax Commission.
 - d. *Wisconsin Dept. of Revenue v. William Wrigley, Jr. Co.*
 - e. *Quill Corp. v. North Dakota.*
18. The Multistate Tax Commission (MTC) issued a *Statement of Information* to clarify P.L. 86-272 and provide detail and examples of which activities in a state would (or not) be protected from income tax. Which of the following are true?
 - a. States largely ignored the statement and developed their own interpretations.
 - b. All states have adopted the language in the statement.
 - c. Many states have incorporated the language into their statutes.
 - d. Most states ignored the statement and applied their sales tax nexus rules to determine income tax obligations.
 - e. For states that haven't adopted the language, their auditors do not consider P.L. 86-272 in their nexus analysis or decisions.
19. Under Addendum II of the *Statement of Information*, an entity may be liable for income taxes if it exceeds which of the following thresholds in a state during the year?
 - a. \$50,000 of property or payroll.
 - b. \$50,000 of sales.
 - c. 25% of total payroll.
 - d. a and b.
 - e. a or c.
20. While the factor-presence nexus standards have been adopted by only twelve states, the number includes some with significant populations, such as:
 - a. California and New York.
 - b. Pennsylvania and Texas.
 - c. Illinois and Ohio.
 - d. a and b.
 - e. a, b and c.
21. The author reminds us that a federal law (P.L. 86-272) supersedes state nexus laws. Assume 30% of an entity's sales are shipped to customers in New York (which adopted the nexus thresholds of Addendum II). The entity has no other activity or presence in New York other than solicitation of orders. The entity:
 - a. Cannot be required to file a New York State income tax return.
 - b. Cannot be required to collect and remit New York State sales tax.
 - c. Cannot be required to file and pay New York State franchise tax or a similar fee.
 - d. Can be required to file a New York State income tax return.
 - e. Is exempt from any registration requirements with the New York Secretary of State.

22. In 2018, the U.S. Supreme Court upheld sales tax threshold requirements in *South Dakota v. Wayfair, Inc.* Under those thresholds, an entity must collect and remit sales tax for any state the entity has during the year:
- Over \$100,000 of sales.
 - Two hundred or more separate transactions.
 - More than 200 separate transactions.
 - a and b.
 - a and c.
23. According to new Subsection C (“Activities Conducted via the Internet”) of the *Statement of Information*, business conducted via the internet is:
- Treated differently than business conducted physically in person.
 - Equivalent to physically entering a state to interact with customers.
 - Protected from state income tax.
 - Always subject to state income tax.
 - Not treated the same as physically entering a state.
24. The 2021 revised *Statement of Information* provides provides eleven examples to consider when evaluating protection from state income tax by P.L. 86-272. Example #10 states video and music streaming are not protected because:
- Streaming is equivalent to physically entering a state.
 - Streaming is equivalent to delivering a tangible product.
 - Streaming is considered a sale of other than tangible personal property.
 - Streaming is equivalent to selling from a physical location.
 - All online commerce (including streaming) is subject to state income tax.
25. A traditional online store that sells products online (customers login and enter purchases) would be:
- Protected from state income tax.
 - Unprotected from state income tax because the products are tangible personal property.
 - Unprotected from state income tax due to exceeding factor-presence thresholds.
 - Protected from collecting sales tax.
 - Required to collect income tax once the number of sales exceeds 200.

Sections IV-V and Exam Questions 26– 35 Relate to the *Journal of Accountancy* – November, 2022.

Section IV. Deliver Business Insights with CAS 2.0 (Page 6)

26. Most CAS services may initially focus on transactional services, such as:
- Accounts payable and receivable.
 - Reconciliations.
 - Cash flow forecasting.
 - a and b.
 - a, b and c.
27. The author notes that some firms expanded services to offer “business insights CAS,” which can involve:
- Goal setting.
 - Selecting technologies.
 - Fractional CFO services.
 - a and b.
 - a, b and c.
28. To effectively deliver business insights CAS, the author suggests reorganizing to a “cross-firm” approach and away from a “silo” model, in which:
- Each partner or service area works fairly independently.
 - Each firm office works independently, as if competitors.
 - Each department bills the client separately.
 - Firms do not outsource to or make use of third-party providers.
 - A single provider of all technology is employed.

29. A pivotal role in a CAS practice is:
- Marketing.
 - Proper reporting of billable hours.
 - Technology.
 - Having excess audit staff to fill CAS roles.
 - Training the clients to perform most of the analysis work.
30. For smaller firms looking for CAS resources, one CPA recommends:
- CAS.com.
 - CPA.com
 - CAS_2.0.com
 - Exploring offerings by your firm's tax software provider.
 - CFO.com

Section V. Amortizing R&E Expenditures under the TCJA (Page 27)

31. The provisions of the Tax Cuts and Jobs Act of (TCJA) related to the tax treatment of research or experimental (R&E) expenses were effective:
- Jan. 1, 2019.
 - Jan. 1, 2020.
 - Jan. 1, 2021.
 - Jan. 1, 2022.
 - Jan. 1, 2023.
32. For tax years beginning after Dec. 31, 2021, tax treatment of domestic R&E expenses can include:
- Deduction entirely in the first year.
 - Capitalization and amortized over five or ten years.
 - Capitalization with no amortization.
 - Capitalization and amortization over three years.
 - b and c.
33. By eliminating the full deduction of R&E expenditures, what other tax effects may result?
- The need to increase estimated tax payments.
 - The charitable contribution deduction may decrease due to a reduction in the profit limit.
 - More NOL (net operating loss) carry forwards may be used.
 - a and c.
 - a, b and c.
34. Under the TCJA, how are software development costs treated?
- Amortization over 5 or 15 years.
 - Amortization over 36 months.
 - Amortization over 10 years.
 - Amortization over 15 years.
 - Full deduction in the year paid or incurred.
35. Assume a taxpayer capitalized \$100,000 of R&E expenditures and claimed a total of \$30,000 of amortization for the first two years (using a 5-year life, half-year method). At the beginning of year 3, the taxpayer abandons the research project. What would be the total tax deduction for this project in year 3?
- Zero. Once abandoned, amortization is suspended and there is no deduction for the remaining basis.
 - \$10,000, or one-half for the year of abandonment.
 - \$20,000. Normal amortization continues until complete.
 - \$23,333. The remaining cost is amortized evenly over the remaining years.
 - \$70,000. The entire remaining basis is deducted.

Sections VI–VII and Exam Questions 36– 50 Relate to the *Journal of Accountancy* – Dec., 2022.

Section VI. Do I Really Need a New Engagement Letter for That? (Page 4)

36. The article opens with a client requesting tax research which was performed without an engagement letter or other documentation. The subsequent liability claim did not go to court, but was settled, because:
- a. The tax advice was in error.
 - b. The CPA should have researched “company B” but did not.
 - c. The CPA did not adhere to the terms of the original engagement letter for the original tax returns.
 - d. In a “war of words,” clients often prevail.
 - e. The engagement letter wasn't signed.
37. A well-drafted engagement letter can prevent:
- a. Misunderstandings.
 - b. Mistakes.
 - c. Misrepresentations.
 - d. a and b.
 - e. a and c.
38. Rather than an engagement letter, in some circumstances it may be appropriate to use alternative documentation, such as an email. These situations could include:
- a. A “quick” tax question from an existing tax client.
 - b. A new service for an existing client.
 - c. A new individual income tax client.
 - d. An existing tax client that will need some attest services.
 - e. An existing CAS client requests some agreed-upon procedures.
39. If alternative documentation is used for a service, it should include:
- a. The client's question or request.
 - b. The CPA's response.
 - c. Fees.
 - d. a and b.
 - e. a, b and c.
40. In the case where the CPA provides preliminary thoughts and advice or responds to a question with incomplete or limited facts, any alternative documentation should include the statement that:
- a. “Fees will be billed separately from other engagements.”
 - b. “Fees may vary depending on available staff.”
 - c. “The client should not act or make decisions based upon the CPA's advice without a more complete analysis.”
 - d. “The advice relies upon the facts provided.”
 - e. “The advice applies solely to the client and should not be applied to others.”

Section VII. Proposed AICPA Tax Standards Address New Concerns (Page 30)

41. The AICPA's Statements on Standards for Tax Services (SSTS) Task Force reorganized and revised existing standards and created new standards related to:
- a. Data protection.
 - b. Reliance on tools.
 - c. Representation of clients before taxing authorities.
 - d. a and b.
 - e. a, b and c.
42. Proposed new standards for data protection require the member to:
- a. Make reasonable efforts to safeguard taxpayer data.
 - b. Adhere to elements of data security listed in the proposed standard.
 - c. Document the use of firewalls and virus protection.
 - d. Undergo a security plan review every three years.
 - e. Safeguard electronic data only.

43. When collecting and storing data, a member should consider:
- The expense.
 - Ease of access.
 - Applicable privacy laws.
 - Digital cloud storage.
 - Giving clients access through a portal.
44. A requirement for tax preparers to implement an information security plan was established by:
- The U.S. Supreme Court in *South Dakota v. Wayfair, Inc.*
 - The Gramm-Leach-Bliley Act, P.L. 106-102 (1999).
 - The Interstate Income Act of 1959.
 - The original Statements on Responsibilities in Tax Practice (SRTPs) issued in 1964.
 - The Revenue Act of 1913 that established the original U.S. income tax.
45. SSTS 1.4., *Reliance on Tools* applies to:
- Tax research products.
 - Tax calculation tools.
 - Tax preparation software.
 - a, b and c.
 - a and c only.
46. Members can reasonable rely on tax preparation software provided they:
- Use appropriate judgment and care when selecting and using the software.
 - Select one of the packages included in the annual review in the Journal of Accountancy.
 - Employ a normal tax return review process.
 - a, b and c.
 - a and c.
47. To provide tax representation services, the member should:
- Be a CPA or enrolled agent.
 - Have or obtain technical competence in the subject matter and the practice and procedures of the taxing authority.
 - Refer the matter to an attorney.
 - Register with the IRS or other authority.
 - Have experience in the subject matter.
48. In dealing with a taxing authority, the member should:
- Delay providing information if it could achieve a better result for the client.
 - Not intentionally delay providing information.
 - Omit some of the requested information as agents rarely review all documents thoroughly.
 - Not intentionally omit some of the requested information.
 - b and d.
49. In the case where the client's actions may appear to be fraudulent or criminal, the member:
- Should withdraw from representation and refer the client to an attorney.
 - Can continue representation but should keep very good records.
 - Can continue representation but should expand the representation letter.
 - Can continue representation but should retain an attorney for consultation.
 - Request to transfer the matter to the criminal division of the taxing authority.
50. Once the taxing authority completes the examination, the member should:
- Review all documents and computations.
 - Discuss results with the client.
 - Have the client sign a representation letter.
 - a and b.
 - a, b and c.