







## Question 1 of 9

The table below includes unrelated situations encountered by a CPA firm. For each situation identified, select the most appropriate response.

Situation	Response
A partner is a member of a country club that is a potential new audit client of the CPA firm. The partner has financial decision making powers at the club but would not serve as the primary engagement partner.	<input type="text"/> 
A CPA firm just retained a new audit client. The new client's CFO has offered the engagement manager four tickets for personal use to a national televised sporting event, along with the use of the client's corporate jet to travel to the event.	<input type="text"/> 
In order to meet the deadline of a client's annual report, the engagement partner issues the final audit report prior to completion of the fieldwork. The company is the CPA firm's largest client.	<input type="text"/> 
A new administrative staff member at a CPA firm sits on the Board of Trustees at a nonissuer audit client. The staff member performs routine clerical functions related to the engagement.	<input type="text"/> 
A client informed the engagement partner that \$190,000 of its inventory is deemed obsolete and is unwilling to adjust the financial statements. Accordingly, the financial statements have not been adjusted. The engagement partner, who has substantial experience in this industry, is aware of the client's position but has agreed to issue an unmodified opinion on the financial statements. The materiality on the audit is \$100,000.	<input type="text"/> 
A CPA firm submitted a proposal to perform agreed-upon procedures for Birch Co. The engagement partner's wife is the administrative assistant to the sales team of Birch Co.	<input type="text"/> 

### Available Options for Row 1:

- A. The firm can accept the country club as a new client because of the scope and nature of the services being provided.
- B. The firm can accept the country club as a new client because the firm is independent and objective.

- C. The firm can accept the country club as a new client because the partner will not be involved with the engagement.
- D. The firm cannot accept the country club as a new client because the client lacks integrity.
- E. The firm cannot accept the country club as a new client due to a lack of independence and objectivity.
- F. The firm cannot accept the country club as a new client unless it includes a disclosure of the relationship in the notes to the financial statements.

**Available Options for Row 2:**

- A. The engagement manager can accept the tickets provided that this is disclosed in the client representation letter.
- B. The engagement manager can accept the tickets provided that this is disclosed in the notes to the financial statements.
- C. The engagement manager can accept the tickets with no effect on due care.
- D. The engagement manager can accept the tickets with no effect on independence and objectivity.
- E. The engagement manager cannot accept the tickets in order to exercise due care.
- F. The engagement manager cannot accept the tickets in order to maintain the appearance of independence and objectivity.

**Available Options for Row 3:**

- A. Because the company is the CPA firm's largest client, there is a conflict of interest and a lack of independence.
- B. The firm's lack of internal quality control procedures suggests that the firm is not exercising due care.
- C. The firm's lack of internal quality control procedures suggests that the firm is not exercising objectivity.
- D. The issuance of the audit report is acceptable, as long as the situation is disclosed in the client representation letter.
- E. The issuance of the audit report is in accordance with the firm's internal professional code of conduct.

**Available Options for Row 4:**

- A. The firm is independent of the client and can issue an unmodified opinion, assuming that no additional issues are identified.

- B. The firm is independent of the client but must issue a modified opinion disclosing the nature of the relationship.
- C. The firm is not independent of the client and must disclaim an opinion of the financial statements.
- D. The firm is not independent of the client and must disclose the relationship in the financial statements.
- E. The firm is not independent of the client and must withdraw from the engagement.

**Available Options for Row 5:**

- A. The financial statements are materially misstated, and the engagement partner has exercised due care.
- B. The financial statements are materially misstated, and the engagement partner has not exercised objectivity and integrity.
- C. The financial statements are materially misstated, and the engagement partner is not independent.
- D. The financial statements are not materially misstated, and the engagement partner has exercised due care.
- E. The financial statements are not materially misstated, and the engagement partner has exercised objectivity and integrity.
- F. The financial statements are not materially misstated, and the engagement partner is not independent.

**Available Options for Row 6:**

- A. The firm can accept Birch Co. as a new client because the firm is independent and objective.
  - B. The firm can accept Birch Co. as a new client with a disclosure of the relationship in the attestation report.
  - C. The firm cannot accept Birch Co. as a new client due to a lack of independence and objectivity.
  - D. The firm cannot accept Birch Co. as a new client due to a lack of integrity.
  - E. The firm cannot accept Birch Co. as a new client due to the nature and scope of the services being provided.
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## Question 2 of 9

### Situation:

An ERISA employee benefit plan, the United Mine Workers of Vermont (UMW) plan, fired its auditor and hired the Locan Firm as a replacement. Locan has only one office, which is located in Burlington, VT. Locan wants to do things right and not violate any independence rules.

### Required:

Answer the following questions “yes” or “no.”

1. Should Locan first consider Department of Labor (DOL) independence regulations?	<input type="text"/> 
2. Should Locan apply the DOL's conceptual framework to answer important independence questions?	<input type="text"/> 
3. Tolan is a tax partner in Locan's office who will have nothing to do with the audit. Must Tolan be independent of the UMW plan?	<input type="text"/> 
4. Hernandez is a tax manager in Locan's office who will have nothing to do with the audit. Must Hernandez be independent of the UMW plan?	<input type="text"/> 
5. Before the UMW fired its earlier auditor, Locan maintained the plan's financial records, which were then audited by the other firm. To ease continuity, Locan and the UMW intend that Locan will continue to maintain the plan's financial records. Is this permitted?	<input type="text"/> 

### Available Options for Table 1:

- A. Yes
- B. No






## Question 3 of 9

### **Situation:**

Your accounting firm is on double secret probation with the AICPA and wants to ensure that it doesn't violate any ethics rules. Therefore, it is reviewing all the financial relationships that its employees have with audit clients.

### **Required:**

Answer the following questions by selecting "yes" or "no" as appropriate.

1. Ian is on the firm's audit team for client DEF Co. Ian owns no DEF stock. Ian is a general partner of a business that has stashed its spare cash in the stock market. It owns a small amount of DEF stock. Does this situation reflect impaired independence?	<input type="text"/> 
2. Ian is on the firm's audit team for client DEF Co. Ian owns no DEF stock. Ian is a member of a member-managed LLC that has stashed its spare cash in the stock market. It owns a small amount of DEF stock. Does this situation reflect impaired independence?	<input type="text"/> 
3. Ian is on the firm's audit team for client DEF Co. Ian owns no DEF stock. Ian is a limited partner of a business that has stashed its spare cash in the stock market. Under the partnership agreement, Ian has no authority to influence the partnership's investments in any way. The business owns a very small amount of DEF stock. Does this situation reflect impaired independence?	<input type="text"/> 
4. Kroll is a tax partner in the audit firm. Kroll owns no DEF stock. He is asked to serve as a trustee of a trust set up by a local businessman. He would not have any input into any investment decisions made by the trust. Still, the trust has 14% of its assets in DEF stock. If Kroll serves as a trustee, would independence be impaired?	<input type="text"/> 
5. Simonds just joined the firm and has been assigned to the DEF audit team. Simonds owns some DEF stock and it is one of his favorite investments. If he placed the stock in a blind trust would impairment of independence be avoided?	<input type="text"/> 

### **Available Options for Table 1:**

- A. Yes
- B. No



## Question 4 of 9






### Elvis and SEC Independence Rules

#### **Situation:**

Elvis Corporation acquired Presley Corporation in a hostile merger and will control it as a large, wholly-owned subsidiary. Your audit firm has audited Elvis Corporation for a long time. Now, you are being asked to audit Presley Corporation, the new subsidiary, as well. You begin doing research regarding potential independence complications with Securities and Exchange Commission (SEC) rules because both Elvis and Presley are large, public corporations subject to SEC rules and requirements.

#### **Required:**

Analyze the following questions and answer them with a “yes” or “no.”

	A	B
1	Kimberly, who is the senior partner on the Elvis audit team, owns a small amount of Presley stock. However, her team is headquartered in Atlanta and the audit team that will handle the Presley account is headquartered in your firm's San Francisco office. Do Kimberly's stock holdings present an independence issue?	<input type="text"/> 
2	Your firm would like to place Tran on the Presley audit team. However, when she was in college getting her accounting degree, Tran borrowed money from Presley to fund her student loan. Some of that loan is still outstanding. Does Tran have an independence problem?	<input type="text"/> 
3	Your firm would also like to place Reynaldo on the Presley audit team, but he has also borrowed money from Presley in the past, secured by a mortgage on his home. Does Reynaldo have an independence problem?	<input type="text"/> 
4	Your firm's CEO has made a lot of money over the years and is in an investment partnership with Toobin, Presley's largest single shareholder. Toobin owns 8% of Presley's stock. No other single shareholder owns more than 1.5%. Does this partnership create an independence problem?	<input type="text"/> 
5	Now that your firm has learned that it has independence issues due to some of the situations outlined in the first four questions above, must it resign as auditor for both Elvis and Presley?	<input type="text"/> 

**Available Options for Table 1:**

A. Yes

B. No

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## Question 5 of 9

### Situation:

Your accounting firm has been hired to audit for the next two years People & Snakes, a nonprofit organization that educates people about reptiles and derives most of its financial resources from grants issued by various federal government entities.

### Required:

Answer the following questions by clicking on the answer cells and selecting “true” or “false.”

1.	So long as your firm meets the independence standards of the AICPA Code of Professional Conduct, it need not worry further about independence issues.	<input type="text"/> 
2.	Unlike the AICPA Code of Professional Conduct, the GAO’s Ethical Principles focus only on actual impairment of independence and do not concern themselves with mere appearances of such impairments.	<input type="text"/> 
3.	The GAO’s Ethical Principles incorporate a “threats & safeguards” conceptual framework that is similar to that contained in the AICPA’s Code of Professional Conduct.	<input type="text"/> 
4.	Last year People & Snakes suffered a major scandal when its treasurer was caught embezzling funds. As part of the engagement letter, your firm may agree to take custody of and account for all funds flowing into People & Snakes.	<input type="text"/> 
5.	Your firm intends to put Susie in charge of the audit and add Alan to the team. Alan will do most of the actual audit work. Alan has no experience with auditing entities in accordance with GAGAS and has not had any continuing professional education (CPE) that related directly to government auditing. Alan may meet CPE requirements by the on-the-job training that Susie intends to give him in order to get him up to speed.	<input type="text"/> 

### Available Options for Table 1:

- A. True
- B. False





## Question 6 of 9

### Situation:

Charlene has a lot of audit experience, but only with private companies. She has never audited government agencies before, but it looks like her career is heading in that direction. She needs some guidance.

### Required:

Answer the following questions by clicking on the answer cells and selecting “yes” or “no.”

1.	The GAO’s ethical guidelines apply to those who conduct audits of government entities, such as federal, state, and local units. Do they also apply to audits of entities that receive government grants?	<input type="text"/> 
2.	If Charlene, while auditing a government agency, happens across information that she can use for personal gain, should she do so?	<input type="text"/> 
3.	Charlene knows that Sarbanes-Oxley prohibits audit firms from providing most nonaudit services (NAS) to public companies. Could NAS raise an issue in government audits?	<input type="text"/> 
4.	Are the threats to independence in the GAO’s conceptual framework identical to those in the AICPA’s conceptual framework?	<input type="text"/> 

### Available Options for Table 1:

- A. Yes
- B. No






## Question 7 of 9

### **Situation:**

Your accounting firm wants to hire Sally, who is a pretty darned good auditor. However, you do not wish to create any independence problems. Therefore, you investigate Sally pretty closely.

### **Required:**

Answer the questions by selecting “yes” or “no” as appropriate.

1. You want to put Sally on the audit team for ABC Manufacturing Co. Sally borrowed \$100,000 from ABC last year and still owes most of that amount. Would putting her on the audit team impair independence?	<input type="checkbox"/> 
2. You want to put Sally on the audit team for the Sixth National Bank. She borrowed \$20,000 from SNB last year while she was working for a different accounting firm. Her payments on the loan are up-to-date and the terms of the loan are completely normal in all respects. Would putting Sally on this audit team impair independence?	<input type="checkbox"/> 
3. You want to put Sally on the audit team for the Hereford National Bank. Last year while she was working for another accounting firm, she borrowed \$20,000 from Hereford so she could buy a car. The loan repayments on are schedule and the auto itself collateralizes the loan. Would putting Sally on this audit team impair independence?	<input type="checkbox"/> 
4. You want to put Sally on the audit team for the Mustang Auto Company. Mustang is currently leasing its place of business from Sally, who inherited the property last year from her grandfather. If Mustang keeps making regular payments, it will own the property after seven years. Would putting Sally on this audit team impair independence?	<input type="checkbox"/> 
5. You want to put Sally on the audit team of the Smitheral Manufacturing Company. Both Sally and Smitheral own Google stock. Would putting Sally on this audit team impair independence?	<input type="checkbox"/> 

### **Available Options for Table 1:**

- A. Yes
- B. No






## Question 8 of 9

### Situation:

Marsha owns a small accounting firm in a rural town. The town's biggest employer is a trade school that receives substantial federal funding in the form of scholarship money and subsidies—Murray Welding School (MWS). After MWS's longtime auditor retired, the school asked Marsha's firm to perform the annual audit necessary to produce financial statements that would satisfy federal requirements placed on MWS. There are three auditors in Marsha's firm—Marsha, Jorge, and Tina—whose practice is to do all audits as a team.

### Required:

Answer the following questions "yes" or "no."








1. Is Marsha right to assume that because MWS receives federal funding, her firm will have to comply with the GAO's Yellow Book's rules on independence and other ethical principles?	<input type="checkbox"/> 
2. If Marsha begins evaluating her firm's independence and finds no specific requirements being violated, then do all independence concerns disappear?	<input type="checkbox"/> 
3. Marsha remembers that from six years before the period covered by the audit to four years before, her husband, Sam, was a high-level employee at MWS. Does this present a significant independence problem?	<input type="checkbox"/> 
4. Marsha learns that Jorge's son is a student at the welding school. Does that create an insurmountable independence problem?	<input type="checkbox"/> 
5. During the audit, staff at MWS who know it is Tina's birthday throw an impromptu party one morning before the workday begins. They provide a birthday cake purchased at a local grocery store. Does this create an insurmountable independence problem?	<input type="checkbox"/> 

### Available Options for Table 1:

- A. Yes
- B. No

## Question 9 of 9

For each of the unrelated situations for an attest client, select from the option list provided the best possible explanation as to why a covered member's independence is or is not impaired under the AICPA Code of Professional Conduct. An option may be used once, more than once, or not at all.

1	Situation	Explanation
2	A covered member invested \$200,000 in a limited partnership that is not the covered member's client. The partnership used the proceeds to make various stock investments. Of this amount, \$3,000 was invested in the stock of the covered member's client.	<input type="text"/> 
3	A covered member owns 4% of the outstanding shares of a diversified mutual fund. One of the underlying investments in the mutual fund is the stock of one of the covered member's clients.	<input type="text"/> 
4	A covered member's spouse owns 1% of the outstanding shares of the covered member's client.	<input type="text"/> 
5	A covered member is a beneficiary in a trust that holds an 8% stock ownership interest in the covered member's client and guides the trust's investments.	<input type="text"/> 
6	A covered member's cousin is a 30% general partner in a partnership that invested in 40% of the outstanding stock of the covered member's client.	<input type="text"/> 
7	A covered member owns 0.04% of the outstanding stock of the covered member's client. The value of this investment is not material to the covered member's net worth.	<input type="text"/> 
8	A covered member is a 6% limited partner in a partnership that invested in a client of the covered member's firm.	<input type="text"/> 

### Available Options for Table 1:

- A. Independence is impaired because there is a direct financial interest in the client.
- B. Independence is impaired if the value of the covered member's financial interest exceeds 10% of the value of the client's equity.
- C. Independence is impaired if the value of the financial interest is material to the covered member's net worth.
- D. Independence is not impaired because a direct or indirect financial ownership interest does not exist.

- E. Independence is not impaired because financial interest in a client is indirect.
  - F. Independence is not impaired because the value of the financial interest is not material.
  - G. Independence is not impaired if a close family member executes a nondisclosure affidavit.
-