MANAGING ETHICAL DILEMMAS FOR TEXAS CPAS

ALLISON M. McLEOD, LL.M., CPA
What are “Ethics?”

“the values an individual uses to interpret whether any particular action or behavior is considered acceptable and appropriate.”
MAJOR SCHOOLS OF ETHICAL THOUGHT

- **ENDS** – Teleological
- **ACTIONS** – Deontological
- **AGENTS** – “Mixed” Framework
ENDS – the Teleological School

- Is an individual pursuing and achieving worthy ends? E.g., health, happiness, the well-being of those around us.

- The Teleological School focuses on the results of the conduct of an individual not the underlying motive for his/her action.

- Good actions motivated by self-interest are acceptable.

- Espouses obtaining the greatest good for the greatest number of people (a.k.a. Utilitarianism).
CASE STUDY I: GOING GROCERY SHOPPING

When Hurricane Katrina hit New Orleans in 2005, many people were stranded without food and water while waiting to be rescued. Some people in their desperation broke into grocery stores and took provisions to feed themselves and their family.

Do the means justify the ends?

How does one reconcile the utilitarian test to the rule of law?
ACTIONS – the Deontological School

- Focuses on duty or obligation to determine whether actions are right or wrong.
- Existentialists believe that the only person who can determine right or wrong is the person faced with the decision.
- Contractarianism (social contract theory) – certain duties are associated with being a member of society.
- Espouses the idea that people should treat others the way they like to be treated (Golden Rule).
One day, your boss asks you to “fudge” some numbers on a report that he will be going over with the CFO later that day. The amounts are not that material in comparison to the Company’s revenues, but the falsified numbers could lead to a different outcome on a minor management decision than would otherwise occur with the correct numbers. To say no to your boss could lead to a lukewarm or negative review, and you worry that with the constant lay-offs at your office, you could be considered a prime candidate due to a perception that you might not be a “team player” if you refuse your boss’ request.

What should you do?
AGENTS – the “Mixed” Framework

- Certain circumstances could override a person’s actual duty.
- For example, it may be permissible to tell a lie based on circumstances.
- A person must incorporate guiding principles in determining what is one’s duty:
  - fidelity, reparation, gratitude, justice,
  - beneficence, self-improvement, non-injury
RED FLAGS TO SPOT ETHICAL DILEMMAS

1. It is too insignificant a matter for anyone to notice.
2. It is too insignificant a matter for anyone to be hurt by my actions.
3. I am not comfortable with this course of action, but I need to do it to advance my career.
4. Everybody else is doing it, so why should I be the exception?
5. I hope that the relevant party to this decision doesn’t find out what I did.
6. Since I was told what to do, I did it.
7. I am doing this because I don’t want to disappoint a specific person.
8. If I make this decision, I will not have to deal with this specific person again.
VALUES

Four questions to ask in identifying values:

1. Is the behavior or action consistent with the overall basic duties of the individual in question?
2. Does the behavior or action acknowledge and respect the underlying rights of all the individuals who will be impacted by the action?
3. Would the behavior or action be considered the best practice in that specific set of circumstances?
4. Does the behavior or action match the overall entrenched beliefs of the individual?
RATIONALIZATION: THE ENEMY OF VALUES

1. *The Publicity Test* – would you want this on the front page of the Wall Street Journal?

2. *The Reversibility Test* – if you were in the other persons’ shoes, would you still agree with the decision being made?

3. *The Generalizability Test* – Could you defend your decision using the same reasoning in similar cases?
CASE STUDY III: THE “BIG BATH”

ABC Company is experiencing a less-than-stellar year and anticipates a large net operating loss by the time the fiscal year comes to a close. In fact, ABC anticipates missing analysts’ earnings estimates by 10%. The business environment appears to be improving, though, and management anticipates that they will complete a large sale of product towards the middle of the next fiscal year.
“THE BIG BATH” (cont’d)

The Chief Accounting Officer suggests that it would be better to go ahead and use the current year in which targets have already been missed to increase reserves on aging equipment, accrue expenses, write-off bad debts, etc., all of which normally would have been incurred in the next year. The rationale is that “sandbagging” a bad year with additional negative information will have any significant additional impact on the stock price. This type of “revenue management” is sometimes known as “the big bath.”
In any event, causing what normally would have been next year’s expenses to hit the current fiscal year would create an even more favorable comparison for the following fiscal year especially in light of the anticipated large sale of inventory. Besides, mused the CAO, some of these accruals would be “legal” based on a strict literal reading of the GAAP rules.

1. What ethical issues can you identify in the scenario above?

2. Are the CAO’s rationalizations justified?

3. Does the fact that the items purportedly will not have a material impact on the stock price influence your answer?
EIGHT RATIONALIZATIONS FOR ETHICAL COMPROMISE

1. I have to do questionable actions to achieve my objectives.
2. I don’t have the time and/or the resources to follow an ethical course of action.
3. My fellow colleagues expect me to behave in an unethical manner.
4. My boss wants me to produce results, not excuses as to why it can’t be done.
5. I believe that my actions are neither wrong or illegal.
6. Other people would agree with my decision.
7. No one will be able to identify the difference between my action and a more ethical course of action.
8. I am hesitant to take the right course of action.
The Ethical Framework

What does this mean?

- Various schools of thought have been developed over the centuries which can aid an individual in determining whether an action would be ethical or not.
- The CPA should determine which of these schools would be helpful in formulating his/her own ethical framework. From this framework, the CPA can establish his/her values.
- The CPA should strive to act in ways that are consistent with these values.
- There is often not a clear-cut answer on whether an action is right or wrong; the CPA often must filter the situation through the ethical framework and values he/she has adopted.
PART TWO:
ETHICS AND THE CPA:
INTEGRITY, OBJECTIVITY, INDEPENDENCE AND RESPONSIBILITY TO THE PUBLIC
WHAT MAKES PEOPLE MAKE BAD DECISIONS?

1. They do not feel loyal to the organization.
2. They feel pressure to “succeed,” as defined by the organization.
3. They feel entitled.
4. They believe that the rules do not apply to them.
5. They do not view the act as illegal.
6. They feel pressured by their peers.
7. They lack resources.
INTEGRITY AND OBJECTIVITY - § 501.73

This section states that a CPA “shall maintain integrity and objectivity, shall be free of conflicts of interest and shall not knowingly misrepresent facts nor subordinate his or her judgment to others.”

Note however that “[i]n tax practice, however, a person may resolve doubt in favor of his client as long as any tax position taken complies with applicable standards such as those set forth in Circular 230 issued by the Internal Revenue Service and AICPA Statements on Standards for Tax Services.”
If there is a situation that would give the appearance of a CPA’s integrity or objectivity being compromised, the CPA can ask for consent in writing from the client to perform the engagement despite the appearance of a conflict of interest if no conflict actually exists.
EXAMPLE 1: INTEGRITY AND OBJECTIVITY

Steve, CPA, is a staff accountant in a local CPA firm. His supervisor wants him to capitalize costs that Steve believes the GAAP rules require him to expense. Steve may not subordinate his judgment to his supervisor’s even if it means the loss of job or client, per § 501.73(a).
EXAMPLE 2: INTEGRITY AND OBJECTIVITY

Joe, a CPA based in Lufkin, TX, has audited for several years the financial statements of a small company in his area. Another corporation has offered to buy out the owners of this company, therefore necessitating the need for a valuation. Joe’s daughter, Susan, happens to be the most qualified valuation expert in East Texas. Joe would have the appearance of a conflict of interest if he recommended Susan’s services to his client unless Joe discloses the familial relationship and obtains a written consent from his client pursuant to § 501.73 (b)
SPECIFIC BEHAVIORS OF HIGH INTEGRITY

1. POSSESS HUMILITY
2. MAINTAIN CONCERN FOR THE GREATER GOOD
3. BE TRUTHFUL
4. FULFILL COMMITMENTS
5. STRIVE FOR FAIRNESS
6. TAKE RESPONSIBILITY
7. HAVE RESPECT FOR THE INDIVIDUAL
SPECIFIC BEHAVIORS OF HIGH INTEGRITY

8. CELEBRATE THE GOOD FORTUNE OF OTHERS
9. DEVELOP OTHERS
10. REPROACH UNJUST ACTS
11. BE FORGIVING
12. EXTEND SELF FOR OTHERS
13. MAKE YOUR ETHICAL BEHAVIOR CONSISTENT BETWEEN YOUR PERSONAL AND PROFESSIONAL LIFE
Midvale, UT, Chili’s Restaurant helps out a family with an Autistic child

7 year-old Arianna MacLean
INDEPENDENCE - § 501.70

This section states that a CPA “shall conform in fact and in appearance to the independence standards established by the AICPA and the board, and . . . the U.S. Securities and Exchange Commission, the General Accounting Office, the PCAOB and other national or international regulatory or professional standard setting bodies.”
INDEPENDENCE

What does this mean?

- The CPA must exercise independent judgment both in fact and in appearance.

- The CPA could be threatened with the choice of “caving” or losing the engagement when faced with communicating an accounting issue that may be contrary to the client’s desired outcome.

- A good filter to determine if a CPA’s action would show independence in appearance is to ask: would you want this on the front page of the Wall Street Journal?
CASE STUDY IV: THE ABSENT MINDED CLIENT

You have an individual client for whom you prepare her Form 1040 more as a favor than anything else, although you do charge her fee (albeit far below market) for your services. She is a single mom whose income is around $40,000. This client is good-natured but somewhat disorganized and sometimes forgets to give you relevant tax data despite your best efforts to ask for the documentation. You try to be patient with this client, knowing that organization and/or business matters are not her strong suit.
CASE STUDY IV: THE ABSENT MINDED CLIENT (cont’d)

One particular year, you have had to rerun her tax return twice due to the fact that after you sent her what you thought was the final copy, she “remembered” something else that she forgot to tell you that impacted the return. You have just sent her the third and hopefully final copy. Due to all the extra time spent on revisions, your rate of pay is probably below minimum wage. The client calls you a few days later and says that she had just remembered that she had privately sold during the tax year in question an article of jewelry she had inherited from her grandmother several years ago. The basis established by the estate during probate was $1,000. This client cannot afford due to a large number of medical bills incurred recently to pay you extra fees. Your patience is wearing thin. What should you do?
RESPONSIBILITIES TO THE PUBLIC

Relevant provisions:

- Firm License Requirements - § 501.81
- Advertising - § 501.82
- Firm Names - § 501.83
- Forms of Practice - § 501.84
- Complaint Notice - § 501.85
- Disclosure of Subsequently Discovered Facts - § 501.86
RESPONSIBILITIES TO THE PUBLIC

What does this mean?

- A firm cannot use the term CPA unless it has a firm license issued by the Board.
- If a Texas CPA works for an unlicensed firm in the client practice of public accountancy, he/she must prominently display the disclaimer “this firm is not a CPA firm.”
- Texas CPA firm names cannot be misleading or use “and Associates” or “and Company,” etc. unless there are actually more than one licensee practicing in the firm.
RESPONSIBILITIES TO THE PUBLIC (cont’d)

- Any advertising cannot be false, misleading, coercive, or threatening. In addition, a Texas CPA cannot contact individuals who have indicated they do not wish to be approached.

- A firm can use the name of a former partner as long as the firm has not actually become a sole proprietorship. In these cases, the practitioner has two years to delete the name of the former partner and ensure his/her has been added.
RESPONSIBILITIES TO THE PUBLIC (cont’d)

- A Texas CPA must furnish the address and phone number of the TSBPA if someone has indicated a complaint to be lodged against the CPA.

- If a Texas CPA has determined subsequent to issuing financial reports that facts existed at the time of the issuance that might have had impact on the same, the CPA must make disclosures as to these facts.
EXAMPLE 1: RESPONSIBILITIES TO THE PUBLIC

Sanjay, an Arkansas CPA, sets up a small shop in Mount Vernon, Texas. His sign reads, “Sanjay Jones, CPA – Attest Specialist.” Sanjay may not refer to himself as a CPA or offer attest services since he does not have a Texas CPA license.

Assume that Sanjay is a Texas CPA but works for a tax controversy firm that serves the general public. Sanjay’s employer does not have a firm license from the TSBPA. Sanjay will have to provide the prominent disclaimer “This is not a CPA Firm” in any advertising or written statement.
EXAMPLE 2: RESPONSIBILITIES TO THE PUBLIC

Jeffrey Smith, CPA, formed an LLC through which he is in the client practice of public accountancy as a sole proprietor. Jeffrey cannot name his firm “Smith and Company” or “The Smith Group” unless there are at least two CPAs practicing in this firm. Jeffrey will need to show in the firm title that his business is in an LLC. One example of a correct designation would be “Jeffrey Smith, CPA – A Limited Liability Company.”
EXAMPLE 3: RESPONSIBILITIES TO THE PUBLIC

Deborah, a CPA based in Midland, TX, audited the financial statements of one of her clients. She subsequently issued a clear opinion. However, a few months later, she discovered that the CFO had been improperly booking revenue as earned during the audited periods when in fact the income was unearned during this time. Deborah is required to disclose the incorrect revenue treatment even though the best information she had at the time had permitted her to initially support the clear opinion.
TEST YOUR KNOWLEDGE!

J.R. holds a CPA license from the State of Kentucky and moves to Dalhart, Texas to set up a sole proprietorship specializing in attest services to be offered to the general public. J.R. cannot hold himself out to be a CPA in Texas unless he also has a Texas CPA license.

True or False?
ANSWER

TRUE!

§ 501.81 – Firm License Requirement
TEST YOUR KNOWLEDGE!

A CPA firm located in Parker County, Texas, can call itself Ewing & Barnes, Certified Public Accountants - Tax Specialists if:

a. The firm has not been a sole proprietorship for at least two years.

b. There were past or current partners at some point who had surnames of Ewing or Barnes.

c. The firm actually has tax expertise offered to the public.

d. All of the above.
ANSWER

D – All of the Above
§ 501.83 Firm Names
PART THREE:

RULES OF PROFESSIONAL CONDUCT
RULES OF PROFESSIONAL CONDUCT

- The Rules of Professional Conduct govern the behavior of Texas CPAs.
- The designation of Certified Public Accountant imposes upon the licensee certain duties to the public, including but not limited to the following obligations:

1. Maintaining independence in fact and in appearance
2. Continuously improving professional skills
3. Holding the affairs of clients in confidence
4. Maintaining high standards of personal and professional conduct in all matters
WHICH SERVICES ARE COVERED BY THE RPC?

The RPC applies to all kinds of professional services performed in the practice of public accountancy, including:

(1) accounting, auditing and other assurance services,
(2) taxation,
(3) financial advisory services,
(4) litigation support,
(5) internal auditing,
(6) forensic accounting, and
(7) management advice and consultation.
WHO IS COVERED BY THE RPC?

- CPAs licensed in Texas in the client practice of public accountancy.

- Texas CPAs who are not in public practice but who are working in industry and provide internal accounting, auditing or attest services.

- Also covered are CPAs employed in education or in government in accounting or auditing.
RESPONSIBILITIES TO CLIENTS

Relevant Provisions:

- Receipt of Commissions and Other Compensation – § 501.71
- Contingency Fees - § 501.72
- Competence - § 501.74
- Confidential Client Communication - § 501.75
- Records and Workpapers - § 501.76
- Acting through Others - § 501.77
RESPONSIBILITIES TO CLIENTS

What does this mean?

- A Texas CPA may not receive commissions or referral fees in situations where the CPA is also performing other services requiring independence from the client.

- A licensee may not perform services (including preparation of original or amended tax returns) for a client for a contingent fee in situations where the CPA is performing other services requiring independence from the client.
RESPONSIBILITIES TO CLIENTS (cont’d)

➢ A CPA cannot accept a contingent fee for testifying as an accounting expert in a court proceeding.

➢ If a licensee does not possess or is able to obtain the necessary competence during the engagement, then he/she must withdraw and suggest another CPA who is competent to do the job.
RESPONSIBILITIES TO CLIENTS
(cont’d)

- Engagements performed for a client must be kept confidential unless permission is granted by the client or if disclosure is required by a judicial proceeding, peer review, or certain ethical investigations.

- A CPA must return a client’s original documents irrespective of whether the CPA’s fees have been paid. If the engagement has been completed, then the CPA must furnish upon later request of the client a copy of any report, tax return or workpapers that have been prepared. If the engagement was not completed, then the CPA is obligated to return only the client’s original documents.
RESPONSIBILITIES TO CLIENTS (cont’d)

➢ Attest workpapers must be kept for at least 5 years.

➢ A licensee cannot have others carry out on his- or her behalf actions that would violate the RPC if the licensee had acted his- or herself.
EXAMPLE 1: RESPONSIBILITIES TO CLIENTS

Rodney is a partner in a CPA firm located in El Paso, TX. He specializes in audits and attest services. Rodney’s client would like him to assist in a litigation support project. Rodney does not have the knowledge and training to perform the work. He must decline or refer the client to another CPA UNLESS he is able to obtain the necessary information during the engagement or he works with others who are competent to complete the project.
EXAMPLE 2: RESPONSIBILITIES TO CLIENTS

John, CPA, is assisting Emma in allocating marital assets during Emma’s divorce case. John runs into his friend George who happens to be representing Emma’s soon-to-be ex-husband, Frank. John cannot discuss any part of his work on Emma’s account with George or anyone else unless Emma grants him permission to do so. John can discuss Emma’s case without her permission if John is subpoenaed to testify.
EXAMPLE 3: RESPONSIBILITIES TO CLIENTS

Henry, CPA, was in the middle of performing an engagement for his client, Fanny, when she terminated the project. Henry is only obligated to return Fanny’s original records and files. He is not obligated to provide to her his work papers.
Bobby, a Texas CPA, works in the Accounting Department of a corporation. Since he is not employed in the client practice of public accountancy, he is not subject to penalties and/or license suspension per the RPC. True or False?
FALSE!

§ 501.53(c) Applicability of Rules of Professional Conduct
Miss Ellie, CPA, performs attest services in her hometown of Seguin, TX. She need only to satisfy the requirements under GAAP in performing these services.

True or False?
FALSE!

§ 501.60 Auditing Standards
Jenna Wade completed a tax return a year ago for ABC Pest Extermination and Skunk Removal Services, Inc. She has been struggling to obtain payment of her fees. The CFO of ABC calls Jenna and asks for a copy of the tax return. Jenna is obligated to furnish a copy of the return for a reasonable fee even though she has never been paid for the engagement.

True or False?
ANSWER

TRUE!

§ 501.76 Records and Workpapers
Ray has specialized in providing tax services to the farming and ranching community through his CPA firm in Henderson County, Texas. Ray has been short of cash lately and has been recently approached by a client to audit the client’s financial statements for use in a refinancing. Ray has never performed any auditing services in his whole career. Ray can accept this engagement as long as he either can obtain the necessary knowledge during the course of this engagement or hires another accountant who is competent at performing audits. True or False?
ANSWER

TRUE!

§ 501.74 Competence
RESPONSIBILITIES TO THE BOARD/PROFESSION

Relevant Provisions:

- Discreditable Acts - § 501.90
- Reportable Events - § 501.91
- Frivolous Complaints - § 501.92
- Responses - § 501.93
- Mandatory Continuing Professional Education - § 501.94
RESPONSIBILITIES TO THE BOARD/PROFESSION

What does this mean?

- A Texas CPA may not commit acts that are discreditable to the practice of public accountancy. Consequences of committing a discreditable act range from penalties to license revocation.

- The licensee is required to notify the Board within 30 days if the individual is convicted or is granted deferred adjudication of a felony or other crimes, and the loss or suspension of his or her CPA license by another jurisdiction.
RESPONSIBILITIES TO THE BOARD/PROFESSION

- The RPC prohibit individuals from making frivolous accusations against other CPAs without following through to prove his or her claims. This rule was designed to keep other CPAs from making groundless claims against their competition.

- A licensee has 30 days to respond to any inquiries from the Board. Any response must be in writing.
RESPONSIBILITIES TO THE BOARD/PROFESSION

➢ A Texas CPA must fulfill the mandatory CPE requirements of 120 hours in a 3 year period with a minimum of 20 hours in each one year period. A four hour Board-approved Ethics course must be taken every other year.
EXAMPLE 1: RESPONSIBILITIES TO THE BOARD/PROFESSION

Catherine, CPA, was engaged to prepare Henry’s tax return. Despite the fact that she had the client’s information for some period of time, she had not sent Henry his final return or returned his many phone messages and e-mails even though the final extended deadline had passed. Catherine can be cited by the Board under § 501.90(11), with punishment ranging from fines to censure to suspension of license.
EXAMPLE 2: RESPONSIBILITIES TO THE BOARD/PROFESSION

John Willoughby, CPA, was convicted of fraud after it was found that he forged the signature of his client, Marianne, to an amended tax return and kept the additional refund for himself. John has 30 days to inform the Board of his conviction.
EXAMPLE 3: RESPONSIBILITIES TO THE BOARD/PROFESSION

Elliot, CPA, has been contacted by the Board to furnish work papers from select clients for a peer review. Elliot ignores repeatedly the Board’s request. Since he did not respond within 30 days, Elliot is in violation of § 501.93(b) and may be considered unfit to serve as a public accountant.
Cliff Barnes, CPA, was convicted of attempted armed robbery at the First National Bank of Ponder. He was stone drunk when he committed this crime. Cliff does not have to report the conviction to the Board because the robbery has nothing to do with accounting. True or False?
ANSWER

FALSE!

§ 501.91 Reportable Events
TEST YOUR KNOWLEDGE!

Pamela, CPA, suffered a seizure from a previously undiagnosed health condition and crashed her Mercedes Benz into a tree in San Angelo, TX, where her CPA firm is located. Sue Ellen, CPA, is one of her main competitors and turns Pamela into the Board stating falsely that Pamela’s accident was due to an addiction to painkillers. Sue Ellen spreads the rumor around town that Pamela is in trouble with the Board even though she knew at the time Pamela did not have an addiction. Sue Ellen has just violated the RPC regarding Frivolous Complaints even though she claims that her actions were all in good fun. True or False?
ANSWER

TRUE!

§ 501.92 Frivolous Complaints
TEST YOUR KNOWLEDGE!

Assume the same facts as above except Sue Ellen has her niece Lucy contact the Board and spread the rumors. Sue Ellen is insulated from the RPC since she, Sue Ellen, was not the person who besmirched Pamela’s reputation.
ANSWER

FALSE!

§ 501.77 Acting through Others
Which of the following constitutes an “act discreditable to the profession?”

a. Knowingly participating in the preparation of a false or misleading financial statement or tax return.

b. Repeated failure to respond to a client's inquiry within a reasonable time without good cause.

c. Threats of bodily harm or retribution to a client.

d. All of the above.

e. None of the above.
D – All of the Above

§ 501.90 Discreditable Acts
Test your knowledge!

1. Bobby, a Texas CPA, works in the Accounting Department of a corporation. Since he is not employed in the client practice of public accountancy, he is not subject to penalties and/or license suspension per the RPC.

2. Miss Ellie, CPA, performs attest services in her hometown of Seguin, TX. She need only to satisfy the requirements under GAAP in performing these services.
3. J.R. holds a CPA license from the State of Kentucky and moves to Dalhart, Texas to set up a sole proprietorship specializing in attest services to be offered to the general public. J.R. cannot hold himself out to be a CPA in Texas unless he also has a Texas CPA license.
Test your knowledge!

4. Jenna Wade completed a tax return a year ago for ABC Pest Extermination and Skunk Removal Services, Inc. She has been struggling to obtain payment of her fees. The CFO of ABC calls Jenna and asks for a copy of the tax return. Jenna is obligated to furnish a copy of the return for a reasonable fee even though she has never been paid for the engagement.
5. Cliff Barnes, CPA, was convicted of attempted armed robbery at the First National Bank of Ponder. He was also stone drunk when he committed this crime. Cliff does not have to report the conviction to the Board because the robbery has nothing to do with accounting.
6. Pamela, CPA, suffered a seizure from a previously undiagnosed health condition and crashed her Mercedes Benz into a tree in San Angelo, TX, where her CPA firm is located. Sue Ellen, CPA, is one of her main competitors and turns Pamela into the Board stating falsely that Pamela’s accident was due to an addiction to painkillers. Sue Ellen spreads the rumor around town that Pamela is in trouble with the Board even though she knew at the time Pamela did not have an addiction. Sue Ellen has just violated the RPC regarding Frivolous Complaints even though she claims that her actions were all in good fun.
Test your knowledge!

7. Assume the same facts as 6. above except Sue Ellen has her niece Lucy contact the Board and spread the rumors. Sue Ellen is insulated from the RPC since she, Sue Ellen, was not the person who besmirched Pamela’s reputation.
8. Ray has specialized in providing tax services to the farming and ranching community through his CPA firm in Henderson County, Texas. Ray has been short of cash lately and has been recently approached by a client to audit the client’s financial statements for use in a refinancing. Ray has never performed any auditing services in his whole career. Ray can accept this engagement as long as he either can obtain the necessary knowledge during the course of this engagement or hires another accountant who is competent at performing audits.
Test your knowledge!

9. A CPA firm located in Parker County, Texas, can call itself Ewing & Barnes, Certified Public Accountants - Tax Specialists if:
   
   a. The firm has not been a sole proprietorship for at least two years.
   
   b. There were past or current partners at some point who had surnames of Ewing or Barnes.
   
   c. The firm actually has tax expertise offered to the public.
   
   d. All of the above.
Test your knowledge!

10. Which of the following constitutes an “act discreditable to the profession?”
   
   a. Knowingly participating in the preparation of a false or misleading financial statement or tax return.
   
   b. Repeated failure to respond to a client's inquiry within a reasonable time without good cause.
   
   c. Threats of bodily harm or retribution to a client.
   
   d. All of the above.
   
   e. None of the above.
ANSWER KEY

1. F – § 501.53(c)
2. F - § 501.60
3. T - § 501.81
4. T - § 501.76
5. F - § 501.91
6. T - § 501.92
7. F - § 501.77
8. T - § 501.74
9. D - § 501.83
10. D - §501.90
Questions?