

# CPA REVIEW SCHOOL OF THE PHILIPPINES

Manila

## AUDITING THEORY

### CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS IN THE PHILIPPINES

#### PREFACE

1. Which statement is incorrect regarding the Code of Ethics for Professional Accountants in the Philippines?
  - a. Professional accountants refer to persons who are Certified Public Accountants (CPA) and who hold a valid certificate issued by the Board of Accountancy.
  - b. Where a national statutory requirement is in conflict with a provision of the IFAC Code, the IFAC Code requirement prevails.
  - c. The Code of Ethics for Professional Accountants in the Philippines is mandatory for all CPAs and is applicable to professional services performed in the Philippines on or after January 1, 2004.
  - d. Professional accountants should consider the ethical requirements as the basic principles which they should follow in performing their work.
2. Which statement is correct regarding the Code of Ethics for Professional Accountants in the Philippines?
  - a. Professional accountants refer to persons who are Certified Public Accountants (CPA) in public practice and who hold a valid certificate issued by the Board of Accountancy.
  - b. It is practical to establish ethical requirements which apply to all situations and circumstances that professional accountants may encounter.
  - c. Professional accountants should consider the ethical requirements as the ideal principles which they should follow in performing their work.
  - d. All CPAs are expected to comply with the ethical requirements of the Code and other ethical requirements that may be adopted and approved by IFAC. Apparent failure to do so may result in an investigation into the CPA's conduct.

#### Modifications to the IFAC Code

3. The following definitions from the IFAC Code were modified to consider Philippine regulatory requirements and circumstances, except
 

a. Firm	c. Professional accountants
b. Professional accountants in public practice	d. Lead engagement partner
4. The following are modifications to the IFAC Code to consider Philippine regulatory requirements and circumstances, except
  - a. The period for rotation of the lead engagement partner was changed from five to seven years.
  - b. Advertising and solicitation by individual professional accountants in public practice were not permitted in the Philippines.
  - c. Additional examples relating to anniversaries and websites wherein publicity is acceptable, as provided in BOA Resolution 19, Series of 2000, were included.
  - d. Payment and receipt of commissions were not permitted in the Philippines.

#### DEFINITIONS

5. Assurance engagement include the following, except
  - a. An engagement conducted to provide a high level of assurance that the subject matter conforms in all material respects with identified suitable criteria.
  - b. An engagement conducted to provide a moderate level of assurance that the subject matter is plausible in the circumstances.
  - c. An engagement in accordance with the Philippine Standard on Assurance Engagement(s) issued by the Philippine Auditing Standards and Practices Council as approved by the Board of Accountancy/Professional Regulation Commission.
  - d. An engagement to perform agreed-upon procedures.
6. Close family include the following, except
 

a. Parent	c. Non-dependent child
b. Sibling	d. Spouse

7. Assurance team include
- |   | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---|----------|----------|----------|----------|
| • All professionals participating in the assurance engagement   | Yes      | Yes      | Yes      | Yes      |
| • All others within a firm who can directly influence the outcome of the assurance engagement   | Yes      | Yes      | No       | No       |
| • For the purposes of an audit client, all those within a network firm who can directly influence the outcome of the audit engagement | Yes      | No       | No       | Yes      |
8. Financial interest means
- a. Any bank account which is used solely for the banking of clients' monies.
  - b. Any monies received by a professional accountant in public practice to be held or paid out on the instruction of the person from whom or on whose behalf they are received.
  - c. A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
  - d. An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
9. Direct financial interest is a financial interest
- |  | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|--|----------|----------|----------|----------|
| • owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by other)                     | Yes      | Yes      | Yes      | No       |
| • beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control    | Yes      | Yes      | No       | No       |
| • beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control | Yes      | No       | No       | Yes      |
10. Firm includes the following, except
- a. A sole practitioner professional accountant.
  - b. An entity that controls a partnership of professional accountants.
  - c. An entity controlled by a partnership of professional accountants.
  - d. A sole practitioner, partnership or corporation of professional accountants.
11. Which of the following is incorrect regarding independence?
- a. Independence consists of independence of mind and independence in appearance.
  - b. Independence of mind is the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
  - c. Independence in appearance is the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's or a member of the assurance team's integrity, objectivity or professional skepticism had been compromised.
  - d. Independence is a combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
12. A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
- a. Indirect financial interest
  - b. Direct financial interest
  - c. Financial instrument
  - d. Clients' monies
13. A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
- a. Objectivity
  - b. Independence of mind
  - c. Professional skepticism
  - d. Independence

14. Lead engagement partner is
  - I. The partner responsible for signing the report on the consolidated financial statement of the audit client.
  - II. Where relevant, the partner responsible for signing the report in respect of any entity whose financial statements form part of the consolidated financial statements and on which a separate stand-alone report is issued.
  - III. When no consolidated financial statements are prepared, the partner responsible for signing the report on the financial statements.
  - a. I, II and III
  - b. I and II only
  - c. I only
  - d. I and III only
15. A distinct sub-group, whether organized on geographical or practice lines.
  - a. Office
  - b. Practice
  - c. Firm
  - d. Network firm
16. The Code of Ethics for Professional Accountants in the Philippines defined "practice" as
  - a. A distinct sub-group, whether organized on geographical or practice lines.
  - b. An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
  - c. Any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
  - d. A sole proprietor or a partnership of professional accountants which offers professional services to the public.
17. The communication to the public of facts about a professional accountant which are not designed for the deliberate promotion of that professional accountant.
  - a. Publicity
  - b. Advertising
  - c. Indirect promotion
  - d. Solicitation
18. Advertising, as defined in the Code of Ethics, means
  - a. The communication to the public of facts about a professional accountant which are not designed for the deliberate promotion of that professional accountant.
  - b. The approach to a potential client for the purpose of offering professional services.
  - c. The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
  - d. Any of the above.
19. Existing accountant, as defined in the Code of Ethics, means
  - a. A professional accountant employed in industry, commerce, the public sector or education.
  - b. A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
  - c. Those persons who hold a valid certificate issued by the Board of Accountancy.
  - d. A sole proprietor, or each partner or person occupying a position similar to that of a partner and each staff in a practice providing professional services to a client irrespective of their functional classification (e.g., audit, tax or consulting) and professional accountants in a practice having managerial responsibilities.
20. The term professional accountant in public practice includes the following, except
  - a. A sole proprietor providing professional services to a client.
  - b. Each partner or person occupying a position similar to that of a partner staff in a practice providing professional services to a client.
  - c. Professional accountants employed in the public sector having managerial responsibilities.
  - d. A firm of professional accountants in public practice.
21. The term receiving accountant includes the following, except
  - a. A professional accountant in public practice to whom the existing accountant has referred tax engagement.
  - b. A professional accountant in public practice to whom the client of the existing accountant has referred audit engagement.

- c. A professional accountant in public practice who is consulted in order to meet the needs of the client.
  - d. A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
22. Related entity is an entity that has any of the following relationships with the client, except
- a. An entity that has direct or indirect control over the client provided the client is material to such entity.
  - b. An entity with a direct financial interest in the client even though such entity has no significant influence over the client provided the interest in the client is material to such entity.
  - c. An entity over which the client has direct or indirect control.
  - d. An entity which is under common control with the client (referred to as a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

## INTRODUCTION

23. A profession is distinguished by certain characteristics including
- I. Mastery of a particular intellectual skill, acquired by training and education.
  - II. Adherence by its members to a common code of values and conduct established by its administering body, including maintaining an outlook which is essentially objective.
  - III. Acceptance of a duty to society as a whole (usually in return for restrictions in use of a title or in the granting of a qualification).
- a. I, II and III
  - b. I and II only
  - c. III only
  - d. II and III only

## THE PUBLIC INTEREST

24. How did the Code of Ethics define public interest?
- a. A distinguishing mark of a profession is acceptance of its responsibility to the public.
  - b. The accountancy profession's public consists of clients, credit grantors, governments, employers, employees, investors, the business and financial community, and others who rely on the objectivity and integrity of professional accountants.
  - c. The collective well-being of the community of people and institutions the professional accountant serves.
  - d. The standards of the accountancy profession are heavily determined by the public interest.

## OBJECTIVES

25. The Code recognizes that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement set out above. These objectives require four basic needs to be met including the following, except
- a. Credibility
  - b. Professionalism
  - c. Quality of Services
  - d. Integrity

## FUNDAMENTAL PRINCIPLES

26. In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites or fundamental principles. The fundamental principles include the following, except
- a. Objectivity
  - b. Professional Competence and due Care
  - c. Technical Standards
  - d. Confidence
27. The principle of professional behavior requires a professional accountant to
- a. Be straightforward and honest in performing professional services.
  - b. Be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity.
  - c. Perform professional services with due care, competence and diligence.
  - d. Act in a manner consistent with the good reputation of the profession and refrain from any conduct which might bring discredit to the profession.

28. Which of the following is not explicitly referred to in the Code of Ethics as source of technical standards?
- a. Commission on Audit (COA)
  - b. Auditing Standards and Practices Council (ASPC)
  - c. Securities and Exchange Commission (SEC)
  - d. Relevant legislation

## THE CODE

29. Which statement is incorrect regarding the Code of Code of Ethics for Professional Accountants in the Philippines?
- a. The objectives as well as the fundamental principles are of a general nature and are not intended to be used to solve a professional accountant's ethical problems in a specific case.
  - b. The code is divided into two parts, part A and part B.
  - c. Part A applies to all professional accountants unless otherwise specified.
  - d. Part B applies only to those professional accountants in public practice.

## PART A – APPLICABLE TO ALL PROFESSIONAL ACCOUNTANTS

### SECTION 1 - Integrity and Objectivity

30. Which of the following is incorrect regarding integrity and objectivity?
- a. Integrity implies not merely honesty but fair dealing and truthfulness.
  - b. The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflicts of interest.
  - c. Professional accountants serve in many different capacities and should demonstrate their objectivity in varying circumstances.
  - d. Professional accountants should neither accept nor offer any gifts or entertainment.

### SECTION 2 - Resolution of Ethical Conflicts

31. Professional accountants may encounter problems in identifying unethical behavior or in resolving an ethical conflict. When faced with significant ethical issues, professional accountants should do the following, except
- a. Follow the established policies of the employing organization to seek a resolution of such conflict.
  - b. Review the conflict problem with the immediate superior if the organization's policies do not resolve the ethical conflict.
  - c. If the problem is not resolved with the immediate superior and the professional accountant determines to go to the next higher managerial level, the immediate superior need not be notified of the decision.
  - d. Seek counseling and advice on a confidential basis with an independent advisor or the applicable professional accountancy body or regulatory body to obtain an understanding of possible courses of action.

### SECTION 3 - Professional Competence

32. Which of the following is incorrect regarding professional competence?
- a. Professional accountants may portray themselves as having expertise or experience they do not possess.
  - b. Professional competence may be divided into two separate phases.
  - c. The attainment of professional competence requires initially a high standard of general education.
  - d. The maintenance of professional competence requires a continuing awareness of development in the accountancy profession.
33. Which of the following is the least required in attaining professional competence?
- a. High standard of general education.
  - b. Specific education, training and examination in professionally relevant subjects.
  - c. Period of meaningful work experience.
  - d. Continuing awareness of development in the accountancy profession.

## SECTION 4 - Confidentiality

34. Which of the following is incorrect regarding confidentiality?
- Professional accountants have an obligation to respect the confidentiality of information about a client's or employer's affairs acquired in the course of professional services.
  - The duty of confidentiality ceases after the end of the relationship between the professional accountant and the client or employer.**
  - Confidentiality should always be observed by a professional accountant unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.
  - Confidentiality requires that a professional accountant acquiring information in the course of performing professional services neither uses nor appear to use that information for personal advantage or for the advantage of a third party.
35. A professional accountant has a professional duty or right to disclose confidential information in each of the following, except
- To comply with technical standards and ethics requirements.
  - To disclose to BIR fraudulent scheme committed by the client on payment of income tax.**
  - To comply with the quality review of a member body or professional body
  - To respond to an inquiry or investigation by a member body or regulatory body.

## SECTION 5 - Tax Practice

36. Which of the following is incorrect regarding the professional accountants' tax practice?
- A professional accountant rendering professional tax services is entitled to put forward the best position in favor of a client, or an employer.
  - Doubt may be resolved in favor of the client or the employer if there is reasonable support for the position.
  - A professional accountant may hold out to a client or an employer the assurance that the tax return prepared and the tax advice offered are beyond challenge.**
  - Professional accountants should ensure that the client or the employer are aware of the limitations attaching to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.
37. A professional accountant may be associated with a tax return that
- Contains a false or misleading statement.
  - Contains statements or information furnished recklessly or without any real knowledge of whether they are true or false.
  - Omits or obscures information required to be submitted and such omission or obscurity would mislead the revenue authorities.
  - Uses of estimates if such use is generally acceptable or if it is impractical under the circumstances to obtain exact data.**
38. When a professional accountant learns of a material error or omission in a tax return of a prior year, or of the failure to file a required tax return, the professional accountant has a responsibility to do the following, except
- Promptly advise the client or employer of the error or omission and recommend that disclosure be made to the revenue authorities.
  - Immediately inform the revenue authorities.**
  - Take reasonable steps to ensure that the error is not repeated in subsequent tax returns if the professional accountant concludes that a professional relationship with the client or employer can be continued.
  - Inform the client or the employer that it is not possible to act for them in connection with that return or other related information submitted to the authorities if the client or the employer does not correct the error.

## SECTION 6 - Cross Border Activities

39. When a professional accountant performs services in a country other than the home country and differences on specific matters exist between ethical requirements of the two countries, the following provisions should be applied
- When the ethical requirements of the country in which the services are being performed are less strict than the Code of Ethics of the Philippines, then the Code of Ethics of the Philippines should be applied.



- b. When the ethical requirements of the country in which services are being performed are stricter than the Code of Ethics of the Philippines, then the ethical requirements in the country where services are being performed should be applied.
- c. When the ethical requirements of the home country are mandatory for services performed outside that country and are stricter, then the ethical requirements of the home country should be applied.
- d. Any of the above.

SECTION 7 - Publicity

40. In the marketing and promotion of themselves and their work, professional accountants should
- a. Not use means which brings the profession into disrepute.
  - b. Not make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained.
  - c. Not denigrate the work of other accountants.
  - d. All of the above.

PART B – APPLICABLE TO PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 8 - Independence

41. Whether a particular engagement is an assurance engagement will depend upon whether it exhibits all the following elements, including:
- I. A three party relationship involving a professional accountant, a responsible party, and an intended user
  - II. A subject matter
  - III. A suitable criteria
  - IV. An engagement process
  - V. A conclusion
- a. I, II, III, IV and V
  - b. I, II, III and V
  - c. I, II, and III
  - d. I, II, III and IV
42. There is a broad range of engagements to provide a high or moderate level of assurance. Such engagements may include
- I. Engagements to report on a broad range of subject matters covering financial and non-financial information
  - II. Attest and direct reporting engagements
  - III. Engagements to report internally and externally
  - IV. Engagements in the private and public sector
- a. I, II, III and IV
  - b. I, II and III
  - c. II only
  - d. I and II only
43. Not all engagements performed by professional accountants are assurance engagements. Other engagements frequently performed by professional accountants that are not assurance engagements include the following, except
- a. Agreed-upon procedures
  - b. Compilation of financial or other information
  - c. Management consulting
  - d. Examination of prospective financial information
44. For assurance engagements provided to an audit client, the following should be independent of the client
- |                                     | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|-------------------------------------|----------|----------|----------|----------|
| • The members of the assurance team | Yes      | Yes      | Yes      | Yes      |
| • The firm                          | Yes      | Yes      | No       | No       |
| • Network firms                     | Yes      | No       | No       | Yes      |
45. For assurance engagements provided to clients that are not audit clients, when the report is not expressly restricted for use by identified users, the following should be independent of the client
- |                                     | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|-------------------------------------|----------|----------|----------|----------|
| • The members of the assurance team | Yes      | Yes      | Yes      | Yes      |
| • The firm                          | Yes      | Yes      | No       | No       |
| • Network firms                     | Yes      | No       | No       | Yes      |

46. For assurance engagements provided to clients that are not audit clients, when the assurance report is expressly restricted for use by identified users, the following should be independent of the client
- |                                     | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|-------------------------------------|----------|----------|----------|----------|
| • The members of the assurance team | Yes      | Yes      | Yes      | Yes      |
| • The firm                          | Yes      | Yes      | No       | No       |
| • Network firms                     | Yes      | No       | No       | Yes      |
47. The firm should be independent of the client in the following engagements
- |   | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---|----------|----------|----------|----------|
| • Assurance engagements provided to an audit client   | Yes      | Yes      | Yes      | Yes      |
| • Assurance engagements provided to clients that are not audit clients, when the report is not expressly restricted for use by identified users       | Yes      | Yes      | No       | No       |
| • Assurance engagements provided to clients that are not audit clients, when the assurance report is expressly restricted for use by identified users | Yes      | No       | No       | Yes      |
48. Independence is potentially affected by
- |                         |                        |
|-------------------------|------------------------|
| I. Self-interest threat | IV. Familiarity threat |
| II. Self-review threat  | V. Intimidation threat |
| III. Advocacy threat    |                        |
| a. I, II, III, IV and V | c. I, II and III       |
| b. I, II, III and IV    | d. I only              |
49. Occurs when a firm or a member of the assurance team could benefit from a financial interest in, or other self-interest conflict with, an assurance client.
- |                         |                       |
|-------------------------|-----------------------|
| a. Self-interest threat | c. Advocacy threat    |
| b. Self-review threat   | d. Familiarity threat |
50. Examples of circumstances that may create self-interest threat include
- Contingent fees relating to assurance engagements.
  - A direct financial interest or material indirect financial interest in an assurance client.
  - A loan or guarantee to or from an assurance client or any of its directors or officers.
  - All of the above.
51. Which of the following least likely create “self-interest threat”
- Undue dependence on total fees from an assurance client.
  - Concern about the possibility of losing the engagement.
  - Having a close business relationship with an assurance client.
  - Pressure to reduce inappropriately the extent of work performed in order to reduce fees.
52. Occurs when any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement or when a member of the assurance team was previously a director or officer of the assurance client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement.
- |                         |                       |
|-------------------------|-----------------------|
| a. Self-interest threat | c. Advocacy threat    |
| b. Self-review threat   | d. Familiarity threat |
53. Examples of circumstances that may create self-review threat least likely include
- Preparation of original data used to generate financial statements or preparation of other records that are the subject matter of the assurance engagement.
  - A member of the assurance team being, or having recently been, an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement.
  - Performing services for an assurance client that directly affect the subject matter of the assurance engagement.
  - Potential employment with an assurance client.



54. Occurs when a firm, or a member of the assurance team, promotes, or may be perceived to promote, an assurance client's position or opinion to the point that objectivity may, or may be perceived to be, compromised. Such may be the case if a firm or a member of the assurance team were to subordinate their judgment to that of the client.
- a. Self-interest threat
  - b. Self-review threat
  - c. **Advocacy threat**
  - d. Familiarity threat
55. A CPA-lawyer, acting as a legal counsel to one of his audit client, is an example of
- a. Self-interest threat
  - b. Self-review threat
  - c. **Advocacy threat**
  - d. Familiarity threat
56. Occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client's interests.
- a. Self-interest threat
  - b. Self-review threat
  - c. Advocacy threat
  - d. **Familiarity threat**
57. Examples of circumstances that may create familiarity threat least likely include
- a. A member of the assurance team having an immediate family member or close family member who is a director or officer of the assurance client.
  - b. A member of the assurance team having an immediate family member or close family member who, as an employee of the assurance client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement.
  - c. A former partner of the firm being a director, officer of the assurance client or an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement.
  - d. **Dealing in, or being a promoter of, share or other securities in an assurance client.**
58. Intimidation threat
- a. Is not a threat to independence.
  - b. **Occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client.**
  - c. Occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client's interests.
  - d. Occurs when a firm, or a member of the assurance team, promotes, or may be perceived to promote, an assurance client's position or opinion to the point that objectivity may, or may be perceived to be, compromised.
59. Which of the following is not likely a threat to independence?
- a. Acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.
  - b. Long association of a senior member of the assurance team with the assurance client.
  - c. Threat of replacement over a disagreement with the application of an accounting principle.
  - d. **Owning immaterial indirect financial interest in an audit client.**
60. When threats to independence that are not clearly insignificant are identified, the following are appropriate, except
- a. Professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level.
  - b. In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement.
  - c. **When the firm decides to accept or continue the assurance engagement, the decision need not be documented provided the threats identified were eliminated.**
  - d. The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest.

61. Consideration of the nature of the safeguards to be applied will be affected by matters such as the
- |  | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|--|----------|----------|----------|----------|
| • Significance of the threat             | Yes      | Yes      | Yes      | Yes      |
| • Nature of the assurance engagement     | Yes      | Yes      | Yes      | No       |
| • Intended users of the assurance report | Yes      | Yes      | No       | Yes      |
| • Structure of the firm                  | Yes      | No       | No       | No       |
62. The safeguards available to eliminate the threats or reduce them to an acceptable level include
- |   | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---|----------|----------|----------|----------|
| • Safeguards created by the profession, legislation or regulation | Yes      | Yes      | Yes      | Yes      |
| • Safeguards within the assurance client                          | Yes      | Yes      | No       | No       |
| • Safeguards within the firm's own systems and procedures         | Yes      | No       | No       | Yes      |
63. Safeguards created by the profession, legislation or regulation, include the following, except
- Educational, training and experience requirements for entry into the profession.
  - Continuing education requirements.
  - Legislation governing the independence requirements of the firm.
  - Policies and procedures that emphasize the assurance client's commitment to fair financial reporting.
64. Safeguards within the assurance client, include the following, except
- Professional standards and monitoring and disciplinary processes.
  - The assurance client has competent employees to make managerial decisions.
  - Internal procedures that ensure objective choices in commissioning non-assurance engagements.
  - A corporate governance structure, such as an audit committee, that provides appropriate oversight and communications regarding a firm's services.
65. Safeguards within the firm's own systems and procedures, include the following, except
- Firm leadership that stresses the importance of independence and the expectation that members of assurance teams will act in the public interest.
  - External review of a firm's quality control system.
  - Policies and procedures to implement and monitor quality control of assurance engagements.
  - Policies and procedures that will enable the identification of interests or relationships between the firm or members of the assurance team and assurance clients.
66. When the safeguards available are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a firm chooses not to eliminate the activities or interest creating the threat, the only course of action available will be the
- Issuance of an adverse opinion.
  - Issuance of qualified opinion or disclaimer of opinion.
  - Issuance of unqualified opinion with explanatory paragraph.
  - Refusal to perform, or withdrawal from, the assurance engagement.
67. Which of the following is incorrect regarding engagement period?
- The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature.
  - If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is earlier.
  - In the case of an audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm.
  - When an entity becomes an audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by previous services provided to the audit client.

## Application of Principles to Specific Situations

### Financial Interests – Provisions applicable to all assurance clients

68. If a member of the assurance team, or their immediate family member, has a direct financial interest, or a material indirect financial interest, in the assurance client, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to (choose the incorrect one)
- Dispose of the direct financial interest prior to the individual becoming a member of the assurance team.
  - Dispose of the indirect financial interest in total prior to the individual becoming a member of the assurance team.
  - Dispose of a sufficient amount of the indirect financial interest so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team.
  - Limit the participation of the member of the assurance team.**
69. If a member of the assurance team, or their immediate family member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:
- Disposing of the financial interest at the earliest practical date.
  - Removing the member of the assurance team from the assurance engagement.
  - Either a or b.**
  - Neither a nor b.
70. When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. Safeguards least likely include:
- The close family member disposing of all or a sufficient portion of the financial interest at the earliest practical date.
  - Discussing the matter with those charged with governance, such as the audit committee.
  - Involving a professional accountant who took part in the assurance engagement to review the work done by the member of the assurance team with the close family relationship or otherwise advise as necessary.**
  - Removing the individual from the assurance engagement.
71. When a firm or a member of the assurance team holds a direct financial interest or a material indirect financial interest in the assurance client as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client. Accordingly, such an interest cannot be held when:
- The member of the assurance team, an immediate family member of the member of the assurance team, and the firm are beneficiaries of the trust.**
  - The interest held by the trust in the assurance client is not material to the trust.
  - The trust is not able to exercise significant influence over the assurance client.
  - The member of the assurance team or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.
72. An inadvertent violation of the Independence rules as it relates to a financial interest in an assurance client would not impair the independence of the firm, the network firm or a member of the assurance team when:
- The firm, and the network firm, has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client.
  - The firm, and the network firm, promptly notifies the professional that the financial interest should be disposed of.
  - The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.
  - All of the above.**

Financial Interests – Provisions applicable to audit clients

73. If a firm, or a network firm, has a direct financial interest in an audit client of the firm, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The action appropriate to permit the firm to perform the engagement would be to
- Dispose of the financial interest.
  - Dispose of a sufficient amount of it so that the remaining interest is no longer material.
  - Either a or b.
  - Neither a nor b.
74. The following self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, except
- If a firm, or a network firm, has a direct financial interest in an audit client of the firm.
  - If a firm, or a network firm, has a material indirect financial interest in an audit client of the firm.
  - If a firm, or a network firm, has a material financial interest in an entity that has a controlling interest in an audit client.
  - If the retirement benefit plan of a firm, or network firm, has a financial interest in an audit client

Loans and Guarantees

75. The following loans and guarantees would not create a threat to independence, except
- A loan from, or a guarantee thereof by, an assurance client that is a bank or a similar institution, to the firm, provided the loan is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client.
  - A loan from, or a guarantee thereof by, an assurance client that is a bank or a similar institution, to a member of the assurance team or their immediate family, provided the loan is made under normal lending procedures, terms and requirements.
  - Deposits made by, or brokerage accounts of, a firm or a member of the assurance team with an assurance client that is a bank, broker or similar institution, provided the deposit or account is held under normal commercial terms.
  - If the firm, or a member of the assurance team, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing.

Close Business Relationship with Assurance Clients

76. Examples of close business relationships that may create self-interest and intimidation threat least likely include
- Having a material financial interest in a joint venture with the assurance client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
  - Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.
  - Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm.
  - The purchase of goods and services from an assurance client by the firm (or from an audit client by a network firm) or a member of the assurance team, provided the transaction is in the normal course of business and on an arm's length basis.

Family and Personal Relationships

77. Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, least likely create
- |                         |                        |
|-------------------------|------------------------|
| a. Self-interest threat | c. Intimidation threat |
| b. Self-review threat   | d. Familiarity threat  |

78. An inadvertent violation of the rules on family and personal relationships would not impair the independence of a firm or a member of the assurance team when:
- The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence.
  - Either the responsibilities of the assurance team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm promptly removes the professional from the assurance engagement.
  - Additional care is given to reviewing the work of the professional.
  - All of the above.**

#### Employment with Assurance Clients

79. A director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement has been a member of the assurance team or partner of the firm. This situation least likely create
- Self-interest threat
  - Advocacy threat**
  - Intimidation threat
  - Familiarity threat
80. If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created is least likely affected by
- The position the individual has taken at the assurance client.
  - The amount of any involvement the individual will have with the assurance team.
  - The length of time that the individual was a member of the assurance team or firm.**
  - The former position of the individual within the assurance team or firm.

#### Recent Service with Assurance Clients

81. A former officer, director or employee of the assurance client serves as a member of the assurance team. This situation will least likely create
- Self-interest threat
  - Self-review threat
  - Intimidation threat**
  - Familiarity threat

#### Serving as an Officer or Director on the Board of Assurance Clients

82. Which of the following will least likely impair independence?
- An immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement.
  - A member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future.
  - A partner or employee of the firm serves as an officer or as a director on the board of an assurance client.
  - A partner or employee of the firm or a network firm serves as Company Secretary for an audit client, the duties and functions undertaken are limited to those of a routine and formal administrative nature as such as the preparation of minutes and maintenance of statutory returns.**

#### Long Association of Senior Personnel with Assurance Clients – General Provisions

83. Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of the threat will least likely depend upon
- The length of time that the individual has been a member of the assurance team.
  - The role of the individual on the assurance team.
  - The structure of the client.**
  - The nature of the assurance engagement.

#### Long Association of Senior Personnel with Assurance Clients – Audit Clients that are Listed Entities

84. Which statement is incorrect regarding long association of senior personnel with audit clients that are listed entities?



- a. Using the same lead engagement partner on an audit over a prolonged period may create a familiarity threat.
  - b. The lead engagement partner should be rotated after a pre-defined period, normally no more than seven (7) years.
  - c. A partner rotating after a pre-defined period should not resume the lead engagement partner role until a further period of time, normally two years, has elapsed.
  - d. When audit client becomes a listed entity the length of time the lead engagement partner has served the audit client in that capacity should be considered in determining when the partner should be rotated.
85. The partner may continue to serve as the lead engagement partner before rotating off the engagement for how many years after audit client becomes a listed entity?
- a. One year
  - b. Two years
  - c. Three years
  - d. Four years
86. While the lead engagement partner should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be necessary in certain circumstances. Examples of such circumstances include:
- a. Situations when the lead engagement partner's continuity is especially important to the audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the lead engagement partner.
  - b. Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard.
  - c. Both a and b.
  - d. Neither a nor b.

#### Provision of Non-Assurance Services to Assurance Clients

87. The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level, except
- a. Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so.
  - b. Determining which recommendation of the firm should be implemented.
  - c. Reporting, in a management role, to those charged with governance.
  - d. Providing technical assistance and advice on accounting principles for audit clients.

#### Preparing Accounting Records and Financial Statements

88. If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Examples of such managerial decisions include the following, except
- a. Determining or changing journal entries, or the classifications for accounts or transactions or other accounting records without obtaining the approval of the audit clients
  - b. Authorizing or approving transactions.
  - c. Preparing source documents or originating data (including decisions on evaluation assumptions), or making changes to such documents or data.
  - d. Assisting an audit client in resolving account reconciliation problems.
89. These following services are considered to be a normal part of the audit process and do not, under circumstances, threaten independence, except
- a. Analyzing and accumulating information for regulatory reporting.
  - b. Assisting in the preparation of consolidated financial statements.
  - c. Drafting disclosure items.
  - d. Having custody of an assurance client's assets.

#### Preparing Accounting Records and Financial Statements – General Provisions

90. If the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter of an audit engagement of the firm, this will most likely create
- a. Self-interest threat
  - b. Self-review threat
  - c. Intimidation threat
  - d. Familiarity threat



Preparing Accounting Records and Financial Statements – Audit Clients that are not Listed Entities

91. The firm, or a network firm, may provide an audit client that is not a listed entity with accounting and bookkeeping services, including payroll services, of a routine or mechanical nature, provided any self-review threat created is reduced to an acceptable level. Examples of such services least likely include:
- Recording transactions for which the audit client has determined or approved the appropriate account classification.
  - Posting coded transactions to the audit client's general ledger.
  - Preparing financial statements based on information in the trial balance.
  - Determining and posting journal entries without obtaining the approval of the audit client.**
92. The safeguards necessary to reduce the threat, created by providing accounting and bookkeeping services to an audit client that is not a listed entity, to an acceptable level might include the following, except
- Making arrangements so such services are not performed by a member of the assurance team.
  - Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client.
  - Requiring the source data for the accounting entries to be originated by the assurance team.**
  - Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

Preparing Accounting Records and Financial Statements – Audit Clients that are Listed Entities

93. The provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of listed audit clients would not be seen as impairing independence with respect to the audit client provided that the following conditions are met, except
- The services do not involve the exercise of judgment.
  - The divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client.
  - The services provided are collectively immaterial to the division or subsidiary.
  - The fees to the firm, or network firm, from such services are collectively significant.**

Preparing Accounting Records and Financial Statements – Emergency Situations

94. The provision of accounting and bookkeeping services to audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, would not be considered to pose an unacceptable threat to independence provided:
- The firm, or network firm, does not assume any managerial role or make any managerial decisions.
  - The audit client accepts responsibility for the results of the work.
  - Personnel providing the services are not members of the assurance team.
  - All of the above.**

Valuation Services

95. If the valuation services involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created (choose the incorrect one)
- Could not be reduced to an acceptable level by the application of any safeguard.
  - Could be reduced to an acceptable level by the application of safeguards.**
  - Such valuation services should not be provided.
  - The assurance team should withdraw from the audit engagement, if the team opted to perform the valuation services.
96. The following would not generally create a significant threat to independence, except
- When a firm, or a network firm, performs a valuation service for an audit client for the purposes of making a filing or return to a tax authority.
  - The firm provides formal taxation opinions and assistance in the resolution of tax disputes to an audit client.
  - The firm renders internal services involving an extension of the procedures required to conduct an audit in accordance with Philippine Standards on Auditing to an audit client.
  - When the firm, or a network firm, provides assistance in the performance of a client's internal audit activities or undertakes the outsourcing of some of the activities.**

Provision of IT Systems Services to Audit Clients

97. The provision of services by a firm or network firm to an audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may most likely create
- Self-interest threat
  - Self-review threat**
  - Intimidation threat
  - Familiarity threat
98. Which of the following is least likely considered to create a threat to independence?
- The provision of services by a firm or network firm to an audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements.
  - The provision of services in connection with the assessment, design and implementation of internal accounting controls and risk management controls.**
  - The lending of staff by a firm, or network firm, to an audit client when the individual is in a position to influence the preparation of a client's accounts or financial statements.
  - The provision of litigation support services to an audit client, which include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements.

Provision of Legal Services to Audit Clients

99. Legal services are defined as
- The making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
  - A broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes.
  - May include such activities as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.
  - Any services for which the person providing the services must either be admitted to practice before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law.**
100. Which of the following threats to independence can be eliminated or reduced to an acceptable level?
- Acting for an audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client.
  - When a firm is asked to act in an advocacy role for an audit client in the resolution of a dispute or litigation in circumstances when the amounts involved are not material to the financial statements of the audit client.**
  - The appointment of a partner or an employee of the firm or network firm as General Counsel for legal affairs to an audit client.
  - Both a and c.

Recruiting Senior Management

101. The recruitment of senior management for an assurance client, such as those in a position to affect the subject of the assurance engagement may least likely create
- Self-interest threat
  - Advocacy threat**
  - Intimidation threat
  - Familiarity threat

Corporate Finance and Similar Activities

102. Certain corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include the following, except
- Committing the assurance client to the terms of a transaction or consummating a transaction on behalf of the client.**
  - Assisting a client in developing corporate strategies.
  - Assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria.
  - Providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions.

Fees and Pricing

103. Which of the following is not likely to create a threat to independence?
- a. The total fees generated by an assurance client represent a large proportion of a firm's total fees.
  - b. Fees due from an assurance client for professional services remain unpaid for a long time.
  - c. A firm obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms.
  - d. A court or other public authority established fees.
104. A client company has not paid its 2003 audit fees. According to the Code of Professional Conduct, for the auditor to be considered independent with respect to the 2004 audit, the 2003 audit fees must be paid before the
- a. 2003 report is issued
  - b. 2004 field work is started
  - c. 2004 report is issued
  - d. 2005 field work is started
105. Fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work preformed.
- a. Contingent fees
  - b. Retainer fees
  - c. Flat sum fees
  - d. Per diem fees
106. Which of the following is least likely to create a threat to independence?
- a. The fees generated by the assurance client represent a large proportion of the revenue of an individual partner.
  - b. The firm charges a contingent fee to an assurance client.
  - c. Accepting gifts or hospitality, the value of which is clearly insignificant, from an assurance client.
  - d. When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client.

**SECTION 9 - Professional Competence and Responsibilities Regarding the Use of Non-Accountants**

107. Which statement is incorrect regarding Professional Competence and Responsibilities Regarding the Use of Non-Accountants?
- a. Professional accountants in public practice should refrain from agreeing to perform professional services which they are not competent to carry out.
  - b. If a professional accountant does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts.
  - c. In situations wherein a professional accountant sought technical advice from experts, although the professional accountant is relying on the technical competence of the expert, the knowledge of the ethical requirements cannot be automatically assumed.
  - d. If at any time the professional accountant is not satisfied that proper ethical behavior can be respected or assured, the engagement should not be accepted unless the engagement has commenced in which case the auditor is allowed to finish the engagement.

**SECTION 10 - Fees and Commissions**

108. Professional fees should be a fair reflection of the value of the professional services performed for the client, taking into account:

	<u>a</u>	<u>b</u>	<u>c</u>	<u>d</u>
• The skill and knowledge required for the type of professional services involved	Yes	Yes	Yes	Yes
• The level of training and experience of the persons necessarily engaged in performing the professional services	Yes	Yes	Yes	No
• The time necessarily occupied by each person engaged in performing the professional services	Yes	Yes	No	No
• The degree of responsibility that performing those services entails	Yes	No	No	No

109. Which statement is incorrect regarding professional fees?
- Professional fees should normally be computed on the basis of appropriate rates per hour or per day for the time of each person engaged in performing professional services.
  - The appropriate rates should be based on the fundamental premise that the organization and conduct of the professional accountant in public practice and the services provided to clients are well planned, controlled and managed.
  - It is for each professional accountant in public practice to determine the appropriate rates.
  - It is not proper for a professional accountant in public practice to charge a client a lower fee than has previously been charged for similar services**
110. The Rules of Conduct will ordinarily be considered to have been violated when the professional accountant represents that specific consulting services will be performed for a stated fee and it is apparent at the time of the representation that the
- Actual fee would be substantially higher.**
  - Actual fee would be substantially lower than the fees charged by other professional accountants for comparable services
  - Fee was a competitive bid.
  - Professional accountant would not be independent.
111. Which of the following fee arrangements would violate the Code of Professional Conduct?
- A fee based on the approval of a bank loan.**
  - A fee based on the outcome of a bankruptcy proceeding.
  - A per hour fee that includes out-of-pocket expenses.
  - A fee based on the complexity of the engagement.
112. Which of the following actions by a professional accountant in public practice will not result in violation of the Code of Ethics regarding commissions?
- Accepting commission for referring a client to a third party.
  - Accepting commission for the referral of the products or services of others.
  - Receipt of referral fees by the referring accountant when no services are performed by the referring accountant.
  - Entering into an arrangement for the purchase of the whole or part of an accounting practice requiring payments to individuals formerly engaged in the practice or payments to their heirs or estates.**

## **SECTION 11 - Activities Incompatible with the Practice of Public Accountancy**

113. Which statement is incorrect regarding activities incompatible with the practice of public accountancy?
- A professional accountant in public practice should not concurrently engage in any business, occupation or activity which impairs or might impair integrity, objectivity or independence, or the good reputation of the profession.
  - A professional accountant in public practice should not concurrently engage in any business, occupation or activity which would be incompatible with the rendering of professional services.
  - The rendering of two or more types of professional services concurrently does by itself impair integrity, objectivity or independence.**
  - The simultaneous engagement in another business, occupation or activity unrelated to professional services which has the effect of not allowing the professional accountant in public practice properly to conduct a professional practice in accordance with the fundamental ethical principles of the accountancy profession should be regarded as inconsistent with the practice of public accountancy.

## **SECTION 12 - Clients' Monies**

114. Which statement is incorrect regarding clients' monies?
- The professional accountants in public practice should not hold client's; monies if there is reason to believe that they were obtained from, or are to be used for, illegal activities.
  - A professional accountant in public practice should maintain one or more bank accounts for clients' monies.
  - Monies may only be drawn from the client account on the instructions of the client.
  - Fees due from a client may be drawn from client's monies without the need of notifying the client.**

**SECTION 13 - Relations with Other Professional Accountants in Public Practice**

115. Which statement is incorrect regarding relations with other professional accountants in public practice?
- a. Professional accountants in public practice should only undertake the services which they can expect to complete with professional competence.
  - b. The wishes of the client should be paramount in the choice of professional advisers, whether or not special skills are involved.
  - c. When a professional accountant in public practice is asked to provide services or advice, inquiries should be made as to whether the prospective client has an existing accountant.
  - d. The receiving accountant may express any criticism of the professional services of the existing accountant without giving the latter an opportunity to provide all relevant information.
116. Communication between the receiving accountant and existing accountant is not intended
- a. To protect a professional accountant in public practice from accepting an appointment in circumstances where all the pertinent facts are not known.
  - b. To protect the minority proprietors of a business who may not be fully informed of the circumstances in which the change is proposed.
  - c. To protect the interests of the existing accountant when the proposed change arises from, or is an attempt to interfere with, the conscientious exercise of the existing accountant's duty to act as an independent professional.
  - d. To restrict the client's freedom to choose their professional advisers and to change to others.
117. The existing accountant, on receipt of the communication from the proposed professional accountant in public practice, should not
- a. Reply, preferably in writing, advising whether there are any professional reasons why the proposed professional accountant in public practice should not accept the appointment.
  - b. Ensure that the client has given permission to give details of this information to the proposed professional accountant in public practice.
  - c. Report the fact, that the permission is not granted, to the proposed professional accountant in public practice.
  - d. Disclose all information needed by the proposed professional accountant in public practice to be able to decide whether or not to accept the appointment, if permission is not granted.

**SECTION 14 - Advertising and Solicitation**

118. Which of the following is true regarding advertising and solicitation?
- a. Advertising, but not solicitation, by individual professional accountants in public practice is permitted in the Philippines.
  - b. It is clearly desirable that the public should be aware of the range of services available from a professional accountant.
  - c. Solicitation, but not advertising, by individual professional accountants in public practice is permitted in the Philippines.
  - d. A professional accountant in public practice in the Philippines, where advertising is prohibited, may advertise in a newspaper or magazine published in a country where advertising is permitted.
119. Publicity by individual professional accountants in public practice is acceptable provided:
- |   | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---|----------|----------|----------|----------|
| • It has as its object the notification to the public or such sectors of the public as are concerned, of matters of fact in a manner that is not false, misleading or deceptive | Yes      | Yes      | No       | Yes      |
| • It is in good taste   | Yes      | Yes      | Yes      | Yes      |
| • It is professionally dignified  | Yes      | Yes      | Yes      | No       |
| • It avoids frequent repetition of, and any undue prominence being given to the name of the professional accountant in public practice  | Yes      | No       | No       | Yes      |



120. Which of the following is not acceptable?
- a. An appointment of a professional accountant in a matter of national importance was publicized.
  - b. A professional accountant writes a letter to another professional accountant seeking employment or professional business.
  - c. A professional accountant is listed in a directory that could reasonably be regarded as a promotional advertisement for those listed therein.
  - d. A professional accountant who authored an article on professional subject, stated his name and professional qualifications and gave the name of his organization.
121. Which of the following is acceptable?
- a. A professional accountant invited a potential client to attend training courses or seminars conducted for the assistance of staff.
  - b. Job specification that gives some detail as to one or more of the services provided to clients by the professional accountant in public practice was communicated to the public through the classified ads section of a newspaper.
  - c. A professional accountant in public practice indicated in his stationery that he is a tax expert.
  - d. A professional accountant developed a website that contains self-laudatory statements designed to solicit clients.
122. Professional accountant who author books or articles on professional subjects, may state
- |  | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|--|----------|----------|----------|----------|
| • His or her name  | Yes      | Yes      | Yes      | Yes      |
| • Professional qualifications                            | Yes      | Yes      | Yes      | No       |
| • Name of organization                                   | Yes      | Yes      | No       | No       |
| • Information as to the services his or her firm provide | Yes      | No       | No       | No       |
123. A professional accountant may invite the following to attend training courses or seminars conducted for the assistance of staff
- |                                  | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|----------------------------------|----------|----------|----------|----------|
| • Clients                        | Yes      | Yes      | No       | No       |
| • Staff                          | Yes      | Yes      | Yes      | Yes      |
| • Other professional accountants | Yes      | Yes      | No       | No       |
| • Potential clients              | Yes      | No       | Yes      | No       |

**PART C- APPLICABLE TO EMPLOYED PROFESSIONAL ACCOUNTANTS**

124. Which statement is incorrect regarding employed professional accountants?
- a. Employed professional accountants owe a duty of loyalty to their employer as well as to the profession, therefore there may be no time that the two will be in conflict.
  - b. A professional accountant, particularly one having authority over others, should give due weight for the need for them to develop and hold their own judgment in accounting matters and should deal with difference of opinion in a professional way.
  - c. When undertaking significant tasks for which a professional accountant has not had sufficient specific training or experience, he or she should not mislead the employer as to the degree of expertise or experience he or she possesses, and where appropriate, expert advice and assistance should be sought.
  - d. A professional accountant is expected to present financial information fully, honestly and professionally and so that it will be understood in its context.

- end of AT-5903 -