

**Accounting Education Associates**  
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**QUARTERLY CPE EXAM ON THE *Journal of Accountancy***  
**Fourth Quarter (October - December), 2015 (Course # 1504)**

A Formal CPE Course using the *JoA* as Reference Material  
**Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)**  
Subject division: Accounting 2; Auditing 2; Tax 6.

**INSTRUCTIONS:**

1. Complete but do not submit all the Assignments in the **Supplementary Study Guide** with **Course objectives** available at our Web site: [www.accounting-education.com](http://www.accounting-education.com)
2. Answer the 50 multiple-choice questions by selecting the one **best** answer.  
**Blacken** the letter; do **not** circle. A score of 70 or better is required.
3. If applicable, please submit a Payment Voucher with your completed Exam.
4. **Scan/email**, fax or snail mail your answer sheet to AEA for grading.
5. For CPE credit, please be sure your name and email address are legible.
6. **For faster response, please provide your email below.**

**COURSE EVALUATION:**

On a scale of A (highest) to F (lowest), please evaluate the following:

1. The course met the objectives described in the promotional material?
2. Any stated prerequisites were necessary or desirable?
3. The course was timely and effective?
4. The course met your professional education needs?
5. The course materials were understandable and helpful?

On my honor as a CPA or CMA, I have neither given nor received assistance on this Exam.

(Signed) \_\_\_\_\_ (Dated) \_\_\_\_\_

Please print your full name: \_\_\_\_\_

Please print your email address: \_\_\_\_\_

To which state boards or agencies do you report CPE? \_\_\_\_\_

Sponsor Agreements with State Boards of Accountancy:

**Hawaii** (#94007), **Illinois** (#158-000242), **Nebraska** (#16-666), **Pennsylvania** (#PX00005-L) and **Texas** (#000211). Most state boards do not require sponsor registration. Check with your Board.

**Please leave this space blank for your Certificate of Completion.**

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Date completed: \_\_\_\_\_

We encourage you to scan and email your answer sheet to [info@accounting-education.com](mailto:info@accounting-education.com)

**For CPE credit, this exam must be completed by 12/31/17.**

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**“All the darkness in the world cannot extinguish the light from a single candle.”**  
... St. Francis of Assisi

This is a formal Interactive self-study CPE course using the *Journal of Accountancy* as reference material designed to keep you abreast of the latest changes affecting our profession. Our course consists of a Supplementary Study Packet (available at our Web site: [www.accounting-education.com](http://www.accounting-education.com)) and this Final Exam; it is divided into sections, each corresponding to selected articles appearing in the JoA. This series of quarterly formal self-study programs that can be completed in your home or office without the inconvenience and high costs associated with many CPE courses. New courses normally appear at our Web site around the beginning of each quarter.

#### LEARNING OBJECTIVES:

The specific learning objectives are stated in the individual sections of the **Supplementary Study Guide** associated with this Quarterly CPE Exam available at [www.accounting-education.com](http://www.accounting-education.com)

**PREREQUISITES:** None.

**LEVEL:** Basic.

**COURSE NUMBER:** The course number we assign to each Quarterly CPE Exam is derived from the Year and Quarter, YYQQ.

#### COURSE SPONSOR:

Accounting Education Associates (“AEA”) has offered **Quarterly CPE Exams** on the *Journal of Accountancy* every quarter for 33 years (since 1982). James H. Ogburn prepares the courses. In addition to working in public accounting and finance, his experience includes 18 years teaching accounting and serving as Assistant Director of Graduate Programs in Accounting and Business at the University of North Carolina at Greensboro, and 33 years of experience in developing CPE courses for CPAs. AEA is not affiliated with the AICPA that holds the copyright to the *Journal of Accountancy*.

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

#### HOW TO CONTACT AEA:

**Email:** [info@accounting-education.com](mailto:info@accounting-education.com)

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

**Fax:** 1-800-645-1099

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Greensboro, NC 27408-3113

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#### RECOMMENDED CPE CREDIT:

We recommend CPE credit of ten (10) hours in accordance with the standards of NASBA, CPE credits have been granted based on a 50-minute hour for Interactive Self-Study CPE courses. The estimated completion time of 10 hours is based on pilot tests of our Study Packet, reference material readings and final exam and are likely to vary from quarter to quarter. A few state boards still use the old standard of awarding CPE credit of only 50% of the estimated completion time.. For further guidance, please check with your own state board or agency.

#### SUBJECT DIVISIONS OF CPE CREDIT:

The recommended subject division is shown on the Final Exam answer sheet, applies to this quarter only and is likely to vary from quarter to quarter.

#### PROGRAM SPONSOR AGREEMENTS:

AEA has sponsor agreements with the following state boards: **Hawaii** (#94007), **Illinois** (#158-000242), **Nebraska** (#16-666), **Pennsylvania** (#PX00005-L) and **Texas** (#000211). Most state boards do not require sponsor registration. Check with your Board. AEA’s courses are accepted by many but not all state boards of accountancy. We do not have a sponsor agreement with the CFP Board, the IRS, NASBA or QAS.

#### PRICES:

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

|   |      |
|---|------|
| Price per course for orders of 1 to 3 courses:  | \$49 |
| Price per course for orders of 4 to 7 courses:  | \$46 |
| Price per course for orders of 8 to 23 courses: | \$43 |
| Price per course for orders of 24 or more:      | \$40 |

#### PAYMENT OPTIONS:

You may pay by check or credit card. If you pay by check, you may take a dollar off for each Exam you submit. Or use your favorite credit card with the secure PayPal feature on our Web site. Please do not email, fax, mail or phone your credit card information to AEA as AEA no longer processes credit cards. Exams will be graded when received regardless of payment method.

#### REFERRAL INCENTIVE PROGRAM - WE’LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

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



The Learning Objectives for this course are stated in the Study Guide at [www.accounting-education.com](http://www.accounting-education.com).

Sections I – III and Exam Questions 1 – 15 Relate to the *Journal of Accountancy* of October 2015.

**Section I. Two Crowdfunding Articles:**

**Crowdfunding Brings New Opportunities for CPAs (Page 38)**

**Crowdfunding and Income Taxes (Page 44)**

1. Which of the following involve(s) selling securities to investors?
  - a. Reward-based crowdfunding.
  - b. Equity crowdfunding.
  - c. Donation-based crowdfunding.
  - d. A, b and c.
  - e. A and b but not c.
2. Pledges received from donation-based crowdfunding are generally \_\_\_\_\_ to the campaign creator.
  - a. Not taxable
  - b. Taxable
3. Companies using crowdfunding to raise \_\_\_\_\_ in 12 months must have their financial statements audited and publish annual reports.
  - a. \$20 million or less
  - b. Between \$20 million and \$50 million
  - c. Either a or b
  - d. Neither a nor b
4. The Sec. 183 limit can apply to all of the following except:
  - a. Individuals.
  - b. Estates and trusts.
  - c. S corporations.
  - d. Partnerships.
  - e. C corporations.
5. The treatment of money generated through crowdfunding depends on:
  - a. The method of fundraising.
  - b. The value of the reward offered.
  - c. Both a and b.
  - d. Neither a nor b.

**Section II. Benefits of an Employee Stock Ownership Plan in Succession Planning (Page 64)**

6. In 2015, Mary sold her C corporation stock with a basis of \$300,000 to her ESOP for \$1,000,000. She had held all of her stock in excess of a year.
  - a. Mary has no choice other than to pay tax on her gain of \$700,000 at ordinary-income tax rates.
  - b. Mary has no choice other than to pay tax at capital gains rates on her \$700,000 gain in 2015.
  - c. Mary can defer up to 50% of her \$700,000 gain by reinvesting her \$1,000,000 proceeds into qualified replacement property.
  - d. Mary can defer all of her \$700,000 gain by reinvesting her \$1,000,000 proceeds into qualified replacement property.
7. S corporation owners can:
  - a. Use Sec. 1042 deferral provisions.
  - b. Treat income attributable to the shares held by the ESOP as exempt from taxation.
  - c. Both a and b.
  - d. Neither a nor b.
8. As an employee of Ajax Corp., Erskine receives a \$3,000 distribution from his ESOP which he rolls over into an IRA. How much of the \$3,000 is currently taxable?
  - a. \$3,000.
  - b. \$2,000.
  - c. \$1,000.
  - d. \$0.
9. Under Sec. 4975, \_\_\_\_\_ payments for ESOP loans are tax-deductible.
  - a. Interest
  - b. Principal
  - c. Both a and b
  - d. Neither a nor b

10. Joyce received a distribution from her ESOP and chose not to roll it into an IRA. The portion of Joyce's distribution attributable to the employer's contribution is taxable as \_\_\_\_\_ and any gain would be taxable as \_\_\_\_\_.
- Ordinary income...ordinary income
  - Ordinary income...capital gain
  - Capital gain...ordinary income
  - Capital gain...capital gain

**Section III. Three Tax Columns:**

From *The Tax Adviser: Estimated Tax Issues for Divorcing Couples* (Page 69),  
**Tax Practice Corner: PTO and Constructive Receipt** (Page 70), and **Tax Matters** (Page 72)

11. The “potential solution” described in the “From *The Tax Adviser*” column for an equitable division of overpayments on past filed returns of divorcing couples is to:
- Request that the IRS credit the overpayment to the person who paid most of the tax.
  - Request that the IRS credit the overpayment equally to the two taxpayers.
  - Request the the IRS credit the overpayment in proportion to the tax paid by each taxpayer.
  - Treat the overpayment as a marital asset or as part of the community property.
12. The IRS has consistently held that an employee is constructively in receipt of income:
- As soon as the right to receive cash for paid-time-off (PTO) becomes fixed.
  - If the employer offers a one-time program to buy back unused PTO from its employees.
  - Both a and b.
  - Neither a nor b.
13. Employees who have the option of converting unused PTO to cash are subject to taxes if:
- They actually receive cash payments.
  - They do not receive cash payments.
  - Either a or b.
  - Neither a nor b.
14. In *Knudsen*, No. 13-72077, the Ninth Circuit held that:
- The concession was a settlement.
  - Knudsen was entitled to court costs and attorneys' fees.
  - Both a and b.
  - Neither a nor b.
15. In *McMillan*, which of the following findings was/were instrumental in the Tax Court's decision?
- That the IRS had previously accepted 50% as the business-use-of-home percentage.
  - That the IRS failed to prove that the legal fees and related costs were not exclusively personal.
  - Both a and b.
  - Neither a nor b.

**Sections IV– VII and Exam Questions 16 - 35 Relate to the *Journal of Accountancy* of November 2015.**

**Section IV. Highlights of Fraud Research** (Page 40)

16. Research found that \_\_\_\_\_ is/are enhanced following lawsuits against audit firms.
- Audit quality
  - Client selection
  - Both a and b
  - Neither a nor b
17. Compared to external auditors, internal auditors are generally:
- More familiar with their organizations, environments, control procedures and financial reporting systems.
  - More independent and more inclined to investigate allegations of fraud by upper management.
  - Both a and b.
  - Neither a nor b.
18. Research found that, when offered financial incentives to report fraud internally, employees preferred to report internally when the evidence was:
- Strong.
  - Weak
  - Either a or b.
  - Neither a nor b.

19. Research found that, when offered financial incentives to report fraud internally, employees preferred to report *externally* when the evidence was:
- a. Strong.
  - b. Weak
  - c. Either a or b.
  - d. Neither a nor b.
20. Research done by Mei Feng and Chan Li found that auditors:
- a. Took the credibility of management forecasts into account when making decisions relating to a going concern opinion.
  - b. Placed less weight on forecasts they viewed as less credible.
  - c. Both a and b.
  - d. Neither a nor b.

**Section V. Startup Costs: Book vs. Tax Treatment (Page 54)**

21. In 2015, NewCorp incurred \$53,000 of startup costs. For financial accounting purposes, NewCorp:
- a. Must expense the entire \$53,000 in 2015.
  - b. May expense \$3,000 and amortize the remaining \$50,000 of startup costs over 180 months.
  - c. Must capitalize the entire \$53,000 and amortize it over 180 months.
  - d. May expense \$2,000 and amortize the remaining \$51,000 over 180 months.
22. In 2015, NewCorp incurred \$53,000 of startup costs. For tax purposes, NewCorp:
- a. Must expense the entire \$53,000 in 2015.
  - b. May expense \$3,000 and amortize the remaining \$50,000 of startup costs over 180 months.
  - c. Must capitalize the entire \$53,000 and amortize it over 180 months.
  - d. May expense \$2,000 and amortize the remaining \$51,000 over 180 months.
23. To qualify as Sec. 195 startup costs, the expenditures must be:
- a. Costs that could be deducted as business expenses if incurred by an existing active business.
  - b. Incurred before the active business begins.
  - c. Both a and b.
  - d. Neither a nor b.
24. Startup costs include all of the following except:
- a. Expenditures to advertise a new business.
  - b. Costs for interest, taxes, and research and experimentation.
  - c. Consulting fees and amounts to analyze the potential for a new business.
  - d. Payments to employees before the business opens.
25. Which of the following may be eligible for Sec. 179 immediate depreciation?
- a. Startup costs.
  - b. Organization costs.
  - c. Sec. 197 intangible costs.
  - d. Tangible depreciable personal property.
  - e. All of the above.

**Section VI. Converting from C to S Corp. May Be Costlier than You Think (Page 64)**

26. Under a discounted cash flow (“DCF”) valuation model, a closely-held business would be valued more highly if it were a:
- a. Flowthrough entity.
  - b. C corporation.
27. In DCF valuations, the tax court uses a \_\_\_\_\_ tax rate for S corporations.
- a. 32%
  - b. 30%
  - c. 28%
  - d. 15%
  - e. 0%
28. In which of the following cases was the taxpayer or taxpayer's estate successful in using tax-affected adjustments to cash flows in a DCF valuation model?
- a. *Gross*.
  - b. *Estate of Gallagher*.
  - c. Both a and b.
  - d. Neither a nor b.
29. If the owner of a closely-held business wants to convert her C corp. to an S corp. and also give each of her children 25% of the stock, she should give the stock \_\_\_\_\_ converting to an S corp.
- a. Before
  - b. After

30. In *Estate of Gallagher*, the taxpayer's expert successfully argued for an adjustment based on an increase in value to:
- Account for the tax savings on all future projected distributions in excess of tax distributions.
  - Reflect the future value of the company's deductible goodwill discounted back to the valuation date.
  - Account for the company's extra margined debt tax shield.
  - All of the above.
  - None of the above.

**Section VII. Three Tax Columns:**

From *The Tax Adviser: Advantages of the Up-C Partnership Structure* (Page 72),  
**Tax Practice Corner – ABLÉ: A Tax Planning Tool for People with Disabilities** (Page 74), and  
**Tax Matters** (Page 76)

31. The legacy partners of an Up-C partnership:
- Will benefit from the flowthrough treatment of income.
  - Will avoid double taxation on earnings typically associated with C corporations.
  - Will avoid double taxation on the ultimate disposition of their operating partnership units.
  - A, b and c.
  - A and b but not c.
32. In 2015, the aggregate limit for all contributions to an ABLÉ account is:
- \$18,000.
  - \$14,000.
  - \$12,000.
  - \$8,000.
  - \$4,000.
33. ABLÉ programs are attractive vehicles because:
- Distributions from ABLÉ accounts are tax-free to the extent the distributions are used for qualified disability expenses of the designated beneficiary.
  - These accounts are not generally counted when determining eligibility for needs-based federal programs.
  - Both a and b.
  - Neither a or b.
34. In *Voss*, the Ninth Circuit held that the \$1,100,000 debt limitation for the home mortgage interest deduction should be calculated on a \_\_\_\_\_ basis.
- Per-taxpayer
  - Per-residence
35. The IRS has issued regulations that:
- Provide rules for determining a taxable beneficiary's basis in a term interest in a charitable remainder trust when there is a sale or other disposition of all interests in the trust to the extent that basis consists of a share of adjusted uniform basis.
  - Affect the charitable remainder trust's basis in the assets.
  - Both a and b.
  - Neither a nor b.

**Sections VIII - X and Exam Questions 36 - 50 Relate to the *Journal of Accountancy* of December 2015**

**Section VIII. A Step Up in Standards for Peer Reviewers** (Page 54)

36. Which of the following affect(s) CPA firms that perform engagements in “must select” engagement industry areas?
- System reviews.
  - Engagement reviews.
  - Both a and b.
  - Neither a nor b
37. In general, CPA firms whose highest levels of service include issuing reports under \_\_\_\_\_ should receive engagement reviews.
- Statements on Auditing Standards
  - Government Auditing Standards
  - SSARs and performing engagements under the SSAEs (other than examination engagements)
  - A, b and c
  - A and b but not c
38. Audits of \_\_\_\_\_ would not be must-select engagements.
- Employee benefit plans
  - Broker-dealers
  - Engagements performed under GAS
  - Regional publishers

39. Which of the following include an evaluation of a CPA firm's system of quality control?
- Engagement reviews.
  - System reviews.
  - Both a and b.
  - Neither a nor b.
40. Under the new peer review process, the panels formed by the administering entity:
- Can refer tough cases to the administering entity's full Peer Review Committee.
  - Must make a decision, and any appeal goes directly to the Peer Review Board.
  - Either a or b.
  - Neither a nor b.

**Section IX. Don't Let Foreign Currency Fluctuations Impair Performance Measurements (Page 60)**

41. ASC Topic 830, *Foreign Currency Matters* allows U.S. companies with international operations to report income statement accounts using:
- The current exchange rate as of the end of the period covered by their income statements.
  - The weighted average foreign exchange rate for the period covered by the income statement.
  - A constant-dollar approach.
  - Local currency financial statements before translation into U.S. dollars.
42. A stronger (rising) dollar will tend to result in reduced \_\_\_\_\_ for U.S. companies with international operations.
- Sales
  - Operating income
  - Both a and b
  - Neither a nor b
43. According to Mark D. Mishler, CPA, the best way to assess the operations of a U.S. company with international operations is to use:
- A constant-dollar approach.
  - The weighted average foreign exchange rate for the period covered by the income statement.
  - The current exchange rate as of the end of the period covered by their income statements.
  - Local currency financial statements before translation into U.S. dollars.
44. In contrast with U.S. GAAP presentation of reported sales and earnings, the constant-dollar approach:
- Measures operating performance in the parent entity's reporting currency.
  - Quantifies the impact of foreign currency fluctuations in terms of U.S. dollars.
  - Both a and b.
  - Neither a nor b.
45. In Mischler's example, use of the constant-dollar method resulted in strong growth in:
- Sales.
  - Operating income.
  - Both a and b.
  - Neither a nor b.

**Section X. Tax Columns:**

**From *The Tax Adviser*:** Employer Health Care Information-reporting Requirements Start Soon (P. 68), **Tax Matters** (Page 72), and **Business Tax Quick Guide – Tax Year 2015** (Insert following Page 72)

46. Section 6056 requires applicable large employers (ALEs) to file:
- Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*.
  - Form 1094-C, *Transmittal of Employer-Provided Offer and Coverage Information Returns*.
  - Both a and b.
  - Neither a nor b.
47. Which of the following hypothetical employers is/are required to file health care information returns?
- An employer with 50 full-time employees.
  - An employer with 45 full-time equivalent employees.
  - Both a and b.
  - Neither a nor b.



48. In *DeBough*, the taxpayer was successful in arguing that:
- a. Section 1038 permits the use of the exclusion regardless of when the property was resold.
  - b. Section 1038 has no provision that requires the recognition of gain previously excluded from the sale of a principal residence.
  - c. Both a and b.
  - d. Neither a nor b.
49. For the 2015 tax year, a person with self-employment income of \$148,500 is subject to self-employment tax on earnings of \_\_\_\_\_ and Medicare tax on earnings of \_\_\_\_\_.
- a. \$148,500...\$148,500
  - b. \$118,500...\$148,500
  - c. \$118,500...\$118,500
  - d. \$148,500...\$118,500
50. For the 2015 tax year, the standard mileage rate for business use of automobiles is \_\_\_\_ cents per mile.
- a. 37.5
  - b. 47.5
  - c. 57.5
  - d. 67.5
  - e. 77.5

***Please email, fax or mail your answer sheet to AEA. Our email address: [info@accounting-education.com](mailto:info@accounting-education.com)***

***Thank you for your business and referrals.***

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