

**Accounting Education Associates**  
**(www.accounting-education.com)**

1809 Worsham Place, Greensboro, NC 27408-3113  
Email Address: [info@accounting-education.com](mailto:info@accounting-education.com)  
Phone: (800) CPE-Exam; Fax: (800) 645-1099

**QUARTERLY CPE EXAM ON THE *Journal of Accountancy***  
**Second Quarter (April - June), 2016 (Course # 1602)**  
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. Unless prepaid, please submit a Payment Voucher with your completed Exam.
4. **Scan/email**, fax or snail mail your answer sheet to AEA for grading.
5. For CPE credit, please be sure your name and email address are legible.
6. **For faster response, please provide your email address below.**

**COURSE EVALUATION:**

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

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

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

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

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

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

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

Sponsor Agreements with State Boards of Accountancy:

**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.**

1. =a= =b= =c= =d= =e=
2. =a= =b= =c= =d= =e=
3. =a= =b= =c= =d= =e=
4. =a= =b= =c= =d= =e=
5. =a= =b= =c= =d= =e=
6. =a= =b= =c= =d= =e=
7. =a= =b= =c= =d= =e=
8. =a= =b= =c= =d= =e=
9. =a= =b= =c= =d= =e=
10. =a= =b= =c= =d= =e=
11. =a= =b= =c= =d= =e=
12. =a= =b= =c= =d= =e=
13. =a= =b= =c= =d= =e=
14. =a= =b= =c= =d= =e=
15. =a= =b= =c= =d= =e=
16. =a= =b= =c= =d= =e=
17. =a= =b= =c= =d= =e=
18. =a= =b= =c= =d= =e=
19. =a= =b= =c= =d= =e=
20. =a= =b= =c= =d= =e=
21. =a= =b= =c= =d= =e=
22. =a= =b= =c= =d= =e=
23. =a= =b= =c= =d= =e=
24. =a= =b= =c= =d= =e=
25. =a= =b= =c= =d= =e=
26. =a= =b= =c= =d= =e=
27. =a= =b= =c= =d= =e=
28. =a= =b= =c= =d= =e=
29. =a= =b= =c= =d= =e=
30. =a= =b= =c= =d= =e=
31. =a= =b= =c= =d= =e=
32. =a= =b= =c= =d= =e=
33. =a= =b= =c= =d= =e=
34. =a= =b= =c= =d= =e=
35. =a= =b= =c= =d= =e=
36. =a= =b= =c= =d= =e=
37. =a= =b= =c= =d= =e=
38. =a= =b= =c= =d= =e=
39. =a= =b= =c= =d= =e=
40. =a= =b= =c= =d= =e=
41. =a= =b= =c= =d= =e=
42. =a= =b= =c= =d= =e=
43. =a= =b= =c= =d= =e=
44. =a= =b= =c= =d= =e=
45. =a= =b= =c= =d= =e=
46. =a= =b= =c= =d= =e=
47. =a= =b= =c= =d= =e=
48. =a= =b= =c= =d= =e=
49. =a= =b= =c= =d= =e=
50. =a= =b= =c= =d= =e=

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 6/30/2018.**

[www.accounting-education.com](http://www.accounting-education.com) Copyright 2016 - AEA #1602-

**“The stock market is never obvious. It is designed to fool most of the people most of the time.”**  
... Jesse Livermore

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 34 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 34 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

**Mail:** 1809 Worsham Place  
Greensboro, NC 27408-3113

**\*Please notify AEA of changes to your email address.\***

*For faster response, please provide your email and fax information on your answer sheet. You may scan and email your answer sheet to us at:*  
[info@accounting-education.com](mailto:info@accounting-education.com)

**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.



**Sections I–III and Exam Questions 1 – 20 Relate to the *Journal of Accountancy* of April 2016.**

**Section I. Two Accounting / Financial Reporting Articles:**

**Bringing Leases into View (Page 22)**

**Beware of Disappearing Revenue in an Acquisition (Page 28)**

1. For the first time, the new FASB lease standard will require that \_\_\_\_\_ leases be recognized on balance sheets.
  - a. Capital
  - b. Operating
  - c. Both a and b
  - d. Neither a nor b
2. Which of the following remain(s) essentially unchanged?
  - a. Lessee accounting.
  - b. Lessor accounting.
  - c. Both a and b.
  - d. Neither a nor b.
3. Which of the following is (are) among the categories of leases under the new FASB lease standard?
  - a. Finance.
  - b. Operating.
  - c. Capital.
  - d. A, b and c.
  - e. A and b but not c.
4. Under the new FASB lease standard, which of the following leases must be recognized on a lessee's balance sheet?
  - a. Leases with a term of one year or less.
  - b. Leases with a term of one year with a renewal option if the option is not reasonably certain to be exercised.
  - c. Both a and b.
  - d. Neither a nor b.
5. Which of the following must reassess the lease term if there is a significant change in circumstances within its control?
  - a. The lessee.
  - b. The lessor.
  - c. Both a and b.
  - d. Neither a nor b.
6. Under the new FASB lease standard, lessees and lessors must apply the \_\_\_\_\_ approach for the transition.
  - a. Full retrospective
  - b. Modified retrospective
  - c. Either a or b
  - d. Neither a nor b
7. Under the IASB's model, a manufacturer should recognize profit at the start of the lease if the lessor:
  - a. Transfers the underlying asset.
  - b. Does not transfer the underlying asset.
  - c. Regardless of whether the lessor transfers the underlying asset or not.
  - d. None of the above.
8. Under the FASB's model, lessors must recognize profit at the start of a lease:
  - a. When the leasing arrangement is effectively a sale of the asset by the lessor.
  - b. If the lessee does not obtain control of the leased asset.
  - c. Either a or b.
  - d. Neither a nor b.
9. Which of the following companies is most likely to experience “disappearing revenue” after being purchased by another company?
  - a. A fertilizer manufacturer.
  - b. A truck manufacturer.
  - c. An aluminum producer.
  - d. A database software company.
  - e. A furniture manufacturer.
10. Assume that before being acquired by BigCo, SmallCo had \$1,000,000 of deferred revenue on its books. As a result of the purchase accounting rule, SmallCo's deferred revenue is revalued to \$300,000. How much revenue related to these contracts should BigCo eventually recognize?
  - a. \$0.
  - b. \$300,000.
  - c. \$700,000.
  - d. \$1,000,000.

## Section II. FBAR Compliance (Page 64)

11. Form 114, *Report of Foreign Bank and Financial Accounts* (commonly called FBAR) is:
- a. A tax return.
  - b. Filed with the IRS.
  - c. An information report.
  - d. A, b and c.
  - e. A and b but not c.
12. Which of the following persons must file an FBAR?
- a. A U.S. person with a financial interest in but not signature authority over a financial account located outside the United States with a constant balance of \$15,000.
  - b. A U.S. person with signature authority but not a financial interest in a financial account located outside the United States with a constant balance of \$21,000.
  - c. A U.S. person with a financial interest and signature authority in a financial account located outside the United States with a constant balance of \$9,000.
  - d. A and b but not c.
  - e. None of the above.
13. Penalties totaling up to \_\_\_\_\_ may be assessed against a business for a pattern of negligent FBAR violations.
- a. \$500
  - b. \$10,000
  - c. \$10,500
  - d. \$50,000
  - e. \$50,500
14. Nonwillful violations of FBAR rules may result in penalties of up to \_\_\_\_\_.
- a. \$500
  - b. \$10,000
  - c. \$10,500
  - d. \$50,000
  - e. \$50,500
15. Willfully failing to report a financial account outside the United States and valued at \$400,000 may be subject to a penalty of \_\_\_\_\_.
- a. \$10,000
  - b. \$50,000
  - c. \$100,000
  - d. \$200,000
  - e. \$400,000

## Section III. Three Tax Columns:

**From *The Tax Adviser: The Importance of Appraisals When Gifting Art* (Page 74),  
*Tax Practice Corner: \$50,000 in Tax Debt Can Ground Travelers* (Page 76), and  
*Tax Matters* (Page 78)**

16. The request for a Statement of Value from the IRS:
- a. Must be submitted to the IRS after the donation is made.
  - b. Must be submitted to the IRS before the tax return is filed.
  - c. Involves no user fee.
  - d. All of the above.
  - e. A and b but not c.
17. Under the FAST Act, a taxpayer earns the “seriously delinquent” certification if he or she:
- a. Owes more than \$50,000 in federal taxes (adjusted annually for inflation), penalties and interest.
  - b. Has had a federal tax lien filed against him or her, or has received a final notice of intent to levy and let the period to file an appeal on the notice pass.
  - c. Either a or b.
  - d. Both a and b.
18. The IRS will withdraw delinquent-taxpayer certification and notify the Secretary of State that a taxpayer is no longer “seriously delinquent” if he or she does any of the following except:
- a. Makes full payment of his or her tax debt.
  - b. Pays down his or her balance due to the IRS to under \$50,000 after certification as seriously delinquent.
  - c. Enters into an installment agreement with the IRS.
  - d. Has an offer in compromise accepted by the IRS.
  - e. Requests relief through innocent spouse procedures.
19. In *Hunsaker*, the Bankruptcy Court:
- a. Awarded the Hunsakers damages because the IRS violated the automatic bankruptcy stay.
  - b. Held that the Hunsakers had sustained significant emotional harm caused by the IRS's violating the stay.
  - c. Both a and b.
  - d. Neither a nor b.

20. Notice 2015-82 reports that the *de minimis* safe harbor threshold amount for purchases of tangible property that can currently be deducted by taxpayers without applicable financial statements (for tax years beginning on or after January 1, 2016) is:
- a. \$500.
  - b. \$1,000.
  - c. \$1,500.
  - d. \$2,000.
  - e. \$2,500.

**Sections IV–VI and Exam Questions 21- 35 Relate to the *Journal of Accountancy* of May 2016.**

**Section IV. Three Articles on New Developments in Accounting and Auditing:**

**News Digest (Page 9)**

**Walking the Talk of Quality Control (Page 16)**

**How Audit Committees Can Help Deter Fraud (Page 20)**

21. The FASB has issued a new financial reporting standard that \_\_\_\_\_ four private company accounting alternatives dealing with intangibles, derivatives and hedging, consolidation and business combinations.
- a. Eliminates effective dates for
  - b. Will allow private companies to forgo a preferability assessment the first time they elect to use any of the
  - c. Both a and b
  - d. Neither a nor b
22. The Financial Accounting Foundation's post-implementation review team found that FASB Statement No. 128, *Earnings per share* is:
- a. Understandable.
  - b. Can be applied as intended.
  - c. Enables information to be reported reliably.
  - d. A, b and c.
  - e. A and b but not c.
23. Which of the following is not one of the “six elements” of a firm's system of quality control explicitly described in the AICPA *Statements of Quality Control Standards*?
- a. Monitoring.
  - b. Engagement profitability.
  - c. Engagement performance.
  - d. Leadership.
  - e. Relevant ethical requirements.
24. Which of the following can result from audit specialization?
- a. Higher-quality work.
  - b. A more efficient engagement review.
  - c. Both a and b.
  - d. Neither a nor b.
25. Which of the following is an / are appropriate activity / activities of an audit committee?
- a. Working with the independent auditor to ensure that the company's financial results are accurately portrayed.
  - b. Ensuring that sound internal controls are in place and operating to prevent fraud.
  - c. Monitoring employee and customer surveys.
  - d. A, b and c.
  - e. A and b but not c.

**Section V. New Product or Different Presentation? (Page 50)**

26. In *Dean*, a federal district court held that Houdini:
- a. Changed the form and function of individual items in its production processes.
  - b. Could claim the Sec. 199 domestic production activities deduction.
  - c. Both a and b.
  - d. Neither a nor b.
27. In *Precision Dose, Inc.*, a federal district court held that Precision Dose:
- a. Could claim the Sec. 199 domestic production activities deduction.
  - b. Engaged only in repackaging drugs.
  - c. Both a and b.
  - d. Neither a nor b.

28. Under proposed IRS regulations (REG – 136459-09), which of the following constitute qualified production property eligible for the domestic production activities deduction?
- Products manufactured in the United States.
  - Agricultural products grown in the United States.
  - Products manufactured outside the United States and imported and only repackaged in the United States.
  - A, b and c.
  - A and b but not c.
29. In which of the following cases did the court(s) conclude that the taxpayer(s) did not engage in manufacturing, producing, growing, or extracting in the United States?
- Precision Dose, Inc.*
  - Dean.*
  - Both a and b.
  - Neither a nor b.
30. Automobile \_\_\_\_\_ may be eligible for the Section 199 domestic production activities deduction.
- Assembly
  - Customization
  - Both a and b
  - Neither a nor b

### Section VI. Two Tax Columns:

From *The Tax Adviser: Bonus Depreciation Applies to New Class of Property* (Page 62) and *Tax Matters* (Page 66)

31. The Protecting Americans from Tax Hikes (PATH) Act of 2015:
- Retroactively extended bonus depreciation through 2019.
  - Provides a depreciation deduction equal to 50% of the adjusted basis of qualifying property placed in service in 2015, 2016 or 2017.
  - Does not provide bonus depreciation for property placed in service after 2017.
  - A, b and c.
  - A and b but not c.
32. Under the PATH Act, which of the following may be qualified improvement property?
- Improvements to the interior of any nonresidential real property placed in service after the date the building was first placed in service.
  - Expenditures to enlarge the building.
  - Both a and b.
  - Neither a nor b.
33. The Foreign Investment in Real Property Tax Act (FIRPTA):
- Changed the amount of withholding required when foreign taxpayers dispose of investments in U.S. real property interests.
  - Added an exception from the tax for investments made by foreign pension funds in U.S. real property.
  - Eliminated an exception from the tax for “cleansed investments” if they were held by foreign REITs or RICs.
  - A, b and c.
  - A and b but not c.
34. In *Jones*, the tax court:
- Held that the taxpayer received no compensation for performing weddings.
  - Held that the taxpayer was not subject to the accuracy-related penalty.
  - Held that the taxpayer could deduct unreimbursed business expenses as a deduction for adjusted gross income.
  - A, b and c.
  - A and b but not c.
35. The maximum penalty for failure to file a tax return with \$10,000 tax due until six months past its due date (in the absence of “reasonable cause”) is:
- \$500.
  - \$1,000.
  - \$2,500.
  - \$3,000.
  - \$5,000.

**Sections VII - IX and Exam Questions 36 - 50 Relate to the *Journal of Accountancy* of June 2016.**

**Section VII. The Psychology behind Good Judgment (Page 26)**

36. To counteract being susceptible to directional goals, CPAs must:
- Expend as much effort seeking information that may *contradict* their desired conclusion as they expend seeking confirming information.
  - Maintain objectivity in considering all information that may be relevant in a decision-making task.
  - Both a and b.
  - Neither a nor b.
37. The CPA firm partner in charge of an audit \_\_\_\_\_ communicate his or her opinion to the auditor in a hypothetical engagement prior to the collection and evaluation of audit evidence.
- Should
  - Should not
38. Research has shown that rest, sleep, and replenishing blood glucose appear to be helpful in dealing with the negative effects of:
- Ego depletion.
  - The halo effect.
  - Directional goals.
  - Data falsification.
39. Avoiding reliance on first impressions is most effective in eliminating bias associated with:
- Ego depletion.
  - The halo effect.
  - Directional goals.
  - Data falsification.
40. Of the following digits, which is most likely to be the first digit in a random data set according to Benford's Law?
- 7.
  - 9.
  - 5.
  - 4.
  - 1.

**Section VIII. Estate Basis Consistency and Reporting: What Practitioners Need to Know (Page 60)**

41. Assume that a hypothetical estate's final value as determined for estate tax purposes is \$4,000,000. Section 1014(a) (1) provides that the basis of any of the estate property to which Sec. 1014(a) applies:
- May be as high as \$4,800,000.
  - May be as high as \$4,400,000.
  - May be as high as \$4,200,000.
  - May not exceed \$4,000,000.
  - May not exceed \$3,600,000.
42. Section 6035 requires that every executor or beneficiary required to file an estate tax return under Sec. 6018 must provide a statement to:
- The IRS.
  - Every person acquiring an interest in property included in a gross estate for estate tax purposes.
  - Both a and b.
  - Neither a nor b.
43. Assuming that an estate tax return is required, property that does not increase an estate's estate tax liability:
- Is subject to reporting in most cases.
  - Is exempt from the consistency requirement.
  - Both a and b.
  - Neither a nor b.
44. Which of the following must be reported in supplemental Form 8971?
- A change in value of property due to an examination or litigation.
  - The discovery of property that should have been reported on the estate tax return but was not.
  - Corrections of inconsequential errors or omissions.
  - A, b and c.
  - A and b but not c.



45. The threshold for the tangible personal property exception in a proposed regulation is:
- a. \$2,000.
  - b. \$3,000.
  - c. \$4,000.
  - d. \$5,000.
  - e. \$6,000.

**Section IX. Two Tax Columns:**

**Tax Practice Corner: Drafting Real Estate Leases with Taxes in Mind (Page 74) and Tax Matters (Page 78)**

46. In *Stough*, the Tax Court found that the \_\_\_\_\_ method(s) applied to the case.
- a. Constant rental accrual
  - b. Proportionate rental accrual
  - c. Both a and b
  - d. Neither a nor b
47. In *Stough*, which payments did the Tax Court rule that the taxpayer should have included in 2008 taxable income?
- a. Rent payments of \$151,493.
  - b. Lump sum payment of \$1 million.
  - c. Both a and b.
  - d. Neither a nor b.
48. In *Stough*, the Tax Court ruled that the taxpayers:
- a. Had relied on their CPA's tax adviser.
  - b. Were liable for the accuracy-related penalty.
  - c. Had adequately reviewed the contents of their tax return.
  - d. A, b and c.
  - e. A and b but not c.
49. In *Brinks, Gilson & Lione*, the Tax Court held that the law firm:
- a. Mischaracterized dividends as deductible compensation.
  - b. Was liable for accuracy-related penalties.
  - c. Both a and b.
  - d. Neither a nor b.
50. The upper limit for the charitable donation qualified appraisal rules' exception is:
- a. \$250.
  - b. \$1,000.
  - c. \$2,500.
  - d. \$5,000.
  - e. \$10,000.

***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.***

**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 encourage you to use social media to introduce your CPA contacts to our services. We welcome any questions by either phone or email.