

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

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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Fourth Quarter (October - December), 2016 (Course # 1604)

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; Management 1, Tax 5. (All Technical)

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
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.

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Date completed: _____

We encourage you to scan and email your answer sheet to info@accounting-education.com

For CPE credit, this exam must be completed by 12/31/2018.

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“It is remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.” -- Charlie Munger

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) 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

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 35 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

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

Fax: 1-800-645-1099

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Greensboro, NC 27408-3113

Please notify AEA of changes to your email address.

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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 or provide for sponsor registration. 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.

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Name _____
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Address _____
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To which state board(s) do you report CPE? _____
Source of referral if applicable: _____

I am submitting _____ completed Exam(s) on the *JoA* that I've downloaded from www.accounting-education.com

(We no longer accept orders for unpublished exams or subscriptions.)

Quantity _____ Year _____
_____ First Quarter (January - March), 20 _____
_____ Second Quarter (April - June), 20 _____
_____ Third Quarter (July - September), 20 _____
_____ Fourth Quarter (October - December), 20 _____

_____ First Quarter (January - March), 20 _____
_____ Second Quarter (April - June), 20 _____
_____ Third Quarter (July - September), 20 _____
_____ Fourth Quarter (October - December), 20 _____

_____ Total Quantity times Unit price of \$ _____ = \$ _____
Total charge

Unit price depends on total number of Exams:

1 – 3 Exams: \$49 8 – 23 Exams: \$43
4 – 7 Exams: \$46 24 and over: \$40

Payment options:

_____ **By check that I'm mailing today.**
(Take a dollar off each exam you pay by check.)

_____ **By using the secure PayPal link on our Web site to pay with favorite credit card (Visa, MasterCard, Amex or Discover)**

PLEASE DO NOT EMAIL CREDIT CARD NUMBERS TO AEA.

Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.

Sections I–III and Exam Questions 1 – 15 Relate to the *Journal of Accountancy* of October 2016.

Section I. A 10-K for the Taxpayer (Page 46)

1. Which of the following entities is (are) consolidated in the basic statements of the United States government financial report?
 - a. The Department of Health & Human Services.
 - b. The Department of Defense.
 - c. The Federal Reserve System.
 - d. A, b and c.
 - e. A or b but not c.
2. In the 2015 fiscal year, which of the following areas accounted for the largest percentage of the federal government's net costs?
 - a. The Department of Defense.
 - b. The Department of Health & Human Services.
 - c. Interest on Treasury securities held by the public.
 - d. The Social Security Administration.
 - e. The Department of Veterans Affairs.
3. Under current law and policy assumptions, the nation's debt-to-GDP ratio is projected to rise from 74% (at the end of 2015) to _____ by 2090.
 - a. 106%
 - b. 137%
 - c. 178%
 - d. 223%
 - e. 268%
4. Under current law, the Medicare Part A (Hospital Insurance) trust fund will be depleted by:
 - a. 2025.
 - b. 2030.
 - c. 2035.
 - d. 2040.
 - e. 2045.
5. Under current law, the combined Social Security trust funds will be depleted by:
 - a. 2024.
 - b. 2028.
 - c. 2034.
 - d. 2040.
 - e. 2046.

Section II. Three Tax Columns:

From *The Tax Adviser: Tax Issues for Professional Gamblers* (Page 62),

Tax Practice Corner: Keeping Clients' Tax Data Secure (Page 64), and Tax Matters (Page 66)

6. To compute taxable business income, professional gamblers may:
 - a. Offset wagering losses against wagering gains.
 - b. Deduct all ordinary and necessary business expenses.
 - c. Deduct wagering losses in excess of wagering gains.
 - d. A, b and c.
 - e. A and b but not c.
7. A professional gambler may:
 - a. Deduct ordinary and necessary business expenses in excess of net gambling winnings for the year.
 - b. May report a business loss which may be applied against other income from the year.
 - c. Both a and b.
 - d. Neither a nor b.
8. For which of the following aspects of data protection are tax preparers responsible?
 - a. Physical security.
 - b. Storage and transmission of data.
 - c. Staff behavior.
 - d. A, b and c.
 - e. A and b but not c.
9. On remand from the Second Circuit, the Tax Court in *Alphonso*:
 - a. Held that the cause of the collapse of the retaining wall was progressive deterioration over many years.
 - b. Held that the collapse was not a casualty loss for tax purposes.
 - c. Held that the taxpayer was entitled to a casualty loss deduction.
 - d. A, b and c.
 - e. A and b but not c.

10. In *Armour*, which of the following factors led to the Tax Court's decision to deny innocent spouse relief to the taxpayer?
- There was no evidence that Armour was ill.
 - Armour received a significant economic benefit, including writing company checks to herself for her personal use and to support her equestrian business.
 - Armour's economic hardship factor.
 - A, b and c.
 - A and b but not c.

Section III. Year-end Tax Planning and What's New for 2016 (Page 75)

Link to the JoA article: <http://sandpointcpa.com/resources/2016-year-end-planning.pdf>

11. The Consolidated Appropriations Act, 2016 prohibits taxpayers from filing returns claiming _____ issued after the year to which it pertains.
- The child tax credit using an ITIN
 - The American opportunity tax credit using an ITIN
 - The earned income tax credit using an SSN
 - A, b and c
 - A and b but not c
12. Tax return preparers are subject to due-diligence requirements for returns that claim:
- The American opportunity tax credit.
 - The child tax credit.
 - Either a or b.
 - Neither a nor b.
13. A business that purchases qualifying equipment for \$900,000 can depreciate _____ in the first year of using the equipment.
- \$250,000
 - \$350,000
 - \$540,000
 - \$740,000
 - \$900,000
14. The earned income tax credit percentage for taxpayers with three qualifying children is:
- 6.5%.
 - 24%.
 - 34%.
 - 40%.
 - 45%.
15. Sec. 408(d)(8) qualified charitable distributions from individual retirement accounts:
- Can only be made by taxpayers who are at least 70 ½ years old.
 - Cannot not exceed \$100,000 annually per taxpayer.
 - Must be included in the taxpayer's adjusted gross income.
 - A, b and c.
 - A and b but not c.

Sections IV–VII and Exam Questions 16- 35 Relate to the *Journal of Accountancy* of Nov., 2016.

Section IV. 11 Tips for Success with Single Audits (Page 40)

16. Single audits for the year ending _____ are subject to the new Uniform Guidance audit requirements.
- June 30, 2016
 - December 31, 2015
 - June 30, 2015
 - A, b and c.
 - A and b but not c
17. Under the Uniform Guidance, the minimum threshold is _____ in federal expenditures.
- \$500,000
 - \$600,000
 - \$750,000
 - \$850,000
 - \$1,000,000
18. Under the Uniform Guidance, the minimum threshold for Type A programs is:
- \$300,000
 - \$450,000
 - \$550,000
 - \$650,000
 - \$750,000
19. In evaluating internal control over compliance in a single audits, auditors should:
- Ensure that appropriate techniques are employed when performing dual-purpose testing.
 - Document the controls.
 - Document the processes.
 - A, b and c.
 - A and b but not c.
20. To ensure effective dual-purpose testing, auditors must select a sample to meet the objectives of _____ test.
- The compliance
 - Internal control
 - Both a and b
 - Neither a nor b

Section V. Boost the Bottom Line with Accounts Payable Best Practices (Page 50)

21. Accounts payable best practices include all of the following except:
- Implementing continuous monitoring of vendors and disbursements for potential fraud.
 - Establishing and maintaining a clean vendor master list.
 - Automating the invoice and payment processes.
 - Conducting regular audits on all transactions to identify and recover overpayments.
 - Having a more transparent disbursement system.
22. What is the correct sequence of the following three steps recommended for managing vendors?
- Establishing a robust registration process.
 - Performing a thorough scrubbing of an organization's master list.
 - Establishing monitoring that automatically checks the master list.
- a. 1-2-3. b. 1-3-2. c. 2-3-1. d. 2-1-3. e. 3-2-1.
23. Enterprise resource planning (ERP) systems can:
- Have configurable controls to avoid paying twice.
 - Catch duplicate payments made from multiple ERP systems.
 - Analyze root causes when overpayment occurs.
 - A, b and c.
 - A and b but not c.
24. What is the effective annualized return on investment earned by paying a 2/10, net 30 invoice on day 10 instead of day 30?
- a. 2%. b. 4%. c. 8%. d. 18%. e. 37%.
25. In the case study, JetBlue increased its net income by:
- Capturing more cash discounts from vendors.
 - Preventing overpayments.
 - Recovering overpayments.
 - A, b and c.
 - A and b but not c.

Section VI. Captive Insurance for the Middle Market (Page 58)

26. When a company uses a captive insurance company to insure against a risk, the owner of the captive acts as:
- The insured.
 - The insurer.
 - Both a and b.
 - Neither a nor b.
27. When a captive insurance company is used:
- The premium payments are tax-deductible as business expenses.
 - The premium income to the captive either is reduced by loss reserves or may be nontaxable under Sec. 831(b).
 - Any profit generated by successful operation of the captive insurance company belongs to the captive owner while also providing significant tax benefits.
 - A, b and c.
 - A and b but not c.
28. Starting in 2017, a *small* captive taking advantage of a Sec. 831(b) election must limit premiums received to _____ or less under the PATH Act.
- a. \$600,000 b. \$1,200,000 c. \$1,500,000 d. \$1,800,000 e. \$2,200,000
29. In *Rent-A-Center*, which of the following factors was most important in the Tax Court's finding?
- The parental guarantee by Rent-A-Center.
 - The amount of the premium payments.
 - The existence of a legitimate business purpose.
 - The small number of insureds.

30. Companies may qualify for the PATH Act's new diversification requirement if:
 - a. No more than 20% of the net written premiums of the captive is attributable to any one policyholder.
 - b. The ownership by the spouse or lineal descendant is the same as his or her ownership of the operating company.
 - c. The risks insured are numerous enough for the law of large numbers to apply.
 - d. A, b or c.
 - e. A or b but not c.

Section VII. Three Tax Columns:

From *The Tax Adviser: FBAR Preparation and Ethical Risks* (Page 74)

Tax Practice Corner: Tax Help for Working Parents (Page 76), and **Tax Matters** (Page 78)

31. The deadline for filing FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* is:
 - a. March 15.
 - b. April 15.
 - c. May 15.
 - d. May 30.
 - e. June 30.

32. In determining the Sec. 21 nonrefundable credit for household and dependent care expenses, allowable expenses are capped at \$ _____ per tax year for one qualifying individual and \$ _____ for two or more.

a. \$1,000...\$2,000	d. \$4,000...\$8,000
b. \$2,000...\$4,000	e. \$5,000...\$10,000
c. \$3,000...\$6,000	

33. In determining the Sec. 45F employer-provided child care credit, qualified child care expenditures include:
 - a. The operating costs of a qualified child care facility of the taxpayer or under contract with the taxpayer.
 - b. Amounts paid or incurred to acquire, construct, rehabilitate, or expand property used as part of a care facility of the taxpayer.
 - c. Land and any part of the principal residence of the taxpayer or an employee of the taxpayer.
 - d. A, b and c.
 - e. A and b but not c.

34. Self-certification for late rollovers of retirement plan funds:
 - a. Are allowed by the IRS.
 - b. Enables the account trustee to accept the late rollover.
 - c. Is a waiver of the 60-day requirement.
 - d. A, b and c.
 - e. A and b but not c.

35. In *Estate of Bartell*, the Tax Court held that:
 - a. The exchange transaction qualified for Sec. 1031 nonrecognition treatment.
 - b. Held that the benefits-and-burdens test should be applied in this case.
 - c. Both a and b.
 - d. Neither a nor b.

Sections VIII - X and Questions 36 - 50 Relate to the *Journal of Accountancy* of December 2016

Section VIII. What's Your Fraud IQ? (Page 38)

36. The U. K. Bribery Act:
 - a. Creates a corporate offense of failure to prevent bribery by associated persons.
 - b. Criminalizes direct and indirect acts of general commercial bribery.
 - c. Criminalizes the bribery of foreign public officials.
 - d. A, b and c.
 - e. A and b but not c.

37. Which of the following constitute(s) the minimum required key components(s) of a conflict of interest?
 - a. An undisclosed interest.
 - b. The potential to benefit, directly or indirectly, from a relationship.
 - c. Both a and b.
 - d. Neither a nor b.

38. Which of the following is least likely to be a warning sign of corruption?
- An employee who has family ties or friendly social relationships with third-party contractors.
 - An unexpected decrease in materials costs.
 - A third-party that routinely provides lavish gifts or business entertainment.
 - Large contracts split into several separate ones to avoid review thresholds.
 - Transactions with vendors that are not on the vendor master list.
39. Which of the following contain(s) an exception for facilitation payments?
- The U.S. Foreign Corrupt Practices Act.
 - The U. K. Bribery Act.
 - Both a and b.
 - Neither a nor b.
40. Which of the following tests would be helpful in assessing whether a company employee may be ordering excessive amounts of certain items to receive kickbacks from a vendor?
- Computing total business volume by vendor.
 - Identifying delivery of inventory to an address not designated as a business address.
 - Identifying inventory for which the quantity on hand is less than the amount needed for one sales cycle.
 - A, b and c.
 - A and b but not c.

Section IX. Two Articles on Management Accounting:

5 Best Practices for Intercompany Accounting (Page 42)

Highlights of Management Accounting Research (Page 50)

41. Standardized global policies should address all of the following except:
- Transfer pricing.
 - Marketing techniques.
 - Foreign currencies.
 - Netting and settlement.
 - Data management.
42. Which of the following technology solutions for executing standardized global intercompany accounting policies provides a centralized accounting database that is rules-based and codes transactions in a central repository?
- In-memory computing.
 - Applied robotics.
 - An accounting hub.
 - A hybrid data bridge.
43. An effective cash management strategy should do all of the following except:
- Net and settle transactions.
 - Provide information to successfully speculate in foreign currencies.
 - Reduce bank fees.
 - Reduce the amount of cash sitting in non-interest-bearing accounts.
 - Provide information to hedge currencies.
44. In their article, “Exploring How the Balanced Scorecard Engages and Unfolds: Articulating the Visual Power of Accounting Inscriptions,” the:
- Authors conclude that the balanced scorecard always provides an obvious way to define strategy and build performance measures around it.
 - Authors' research demonstrates how their scorecard model guides the evolving work that managers do to build and deploy strategy.
 - Both a and b.
 - Neither a nor b.
45. In “Using Negotiated Budgets for Planning and Performance Education: An Experimental Study,” the authors determined that using a single budget for planning and performance evaluation:
- Enhances subordinates' performance.
 - Increases subordinates' cooperation during budget negotiations.
 - Increases flexibility.
 - A, b and c.
 - A and b but not c.

Section X. Three Tax Columns:

**From *The Tax Adviser: Filing Considerations for Active Duty Military* (Page 64)
Tax Practice Corner: Short-term Rentals, the Sharing Economy, and Tax (Page 66), and
Tax Matters (Page 68)**

46. The state of residency of an active duty member of the U.S. Armed forces is based on:
- The state where he or she is permanently stationed.
 - The state he or she claims as “home,” typically the state where he or she enlisted.
 - The state in which he or she spent the greatest number of days in the U. S. during the tax year.
 - The state where he or she resided on the last day of the tax year.
 - None of the above.
47. Mary Smith rents out a portion of her personal residence through Airbnb 12 times for a total of 30 days during 2016. She routinely performs necessary services such as dusting, cleaning, changing linens, etc. and files as a sole proprietorship. On her 2016 federal income tax return, Mary:
- Must report her rental activity on Schedule C, *Profit or Loss From Business*.
 - Is subject to self-employment taxes.
 - Can deduct a proportionate share of home mortgage interest, real estate taxes plus expenses such as utilities, repairs, supplies and cleaning services up to the amount of gross income from rentals.
 - A, b and c.
 - None of the above but she should retain good records and documentation of her rental activity.
48. Sue Slight rents out a portion of her personal residence through Airbnb eight times for a total of 14 days during 2016. She routinely performs necessary services such as dusting, cleaning, changing linens, etc. and files as a sole proprietorship. On her 2016 federal income tax return, Sue:
- Must report her rental activity on Schedule C, *Profit or Loss From Business*.
 - Is subject to self-employment taxes.
 - Can deduct a proportionate share of home mortgage interest, real estate taxes plus expenses such as utilities, repairs, supplies and cleaning services up to the amount of gross income from rentals.
 - A, b and c.
 - None of the above but she should retain good records and documentation of her rental activity.
49. In *CRI-Leslie, LLC*, the Tax court held that:
- Sec. 1234A always applies to Sec. 1231 property.
 - Income from forfeited deposits of terminated contracts is not eligible for capital gain treatment under Sec. 1234A.
 - Both a and b.
 - Neither a nor b.
50. In *Scott Singer Installations, Inc.*, the Tax Court held that an S corporation's payments on its owner's behalf were not wages because:
- Previous advances created a sufficient loan balance to cover the repayment amounts at issue.
 - Of the existence of promissory notes, interest and repayment terms.
 - Both a and b.
 - Neither a nor b.

Please email, fax or mail your answer sheet to AEA. Our email address: info@accounting-education.com

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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.