

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

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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Second Quarter (April - June), 2017 (Course # 1702)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Accounting 2; Auditing 4; Tax 4. (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 6/30/2019.

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“Highly educated young people are tutored, taught, and monitored in all aspects of their lives except the most important, which is character-building. But without character and courage, nothing else lasts.”

David Brooks

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 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

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

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 – 15 Relate to the *Journal of Accountancy* of April 2017.

**Section I. Audit Updates Featuring Two Articles Highlighting Developments in Auditing:
Rethinking the Audit (Page 28) and
How to Enable Audit Innovation (Page 33)**

1. Which of the following artificial intelligence technologies is (are) relevant to auditing applications?
 - a. Natural language processing.
 - b. Machine learning.
 - c. Both a and b.
 - d. Neither a nor b.
2. Deloitte auditors use Argus to:
 - a. Help identify and visualize items of interest to an auditor.
 - b. Extract its findings into a working paper.
 - c. Reduce the amount of time required to review documents.
 - d. A, b and c.
 - e. A and b but not c.
3. Technology tools allow auditors to concentrate on:
 - a. Observation and inquiry.
 - b. Data collection and documentation.
 - c. Both a and b.
 - d. Neither a nor b.
4. Which of the following factors appear(s) to be instrumental in winning the annual in-house competition in audit innovation at Deloitte & Touche LLP?
 - a. Experience.
 - b. Level in the firm.
 - c. Ideas.
 - d. A, b and c.
 - e. A and b but not c.
5. Which of the following firms is (are) primarily engaged in a technology business?
 - a. Kira.
 - b. Deloitte.
 - c. Both a and b.
 - d. Neither a nor b.

Section II. Using Excel and Benford's Law to Detect Fraud (Page 44)

6. A graph showing the percentage of time that digits 1 through 9 are expected to occur in the first position of a multi-digit integer (with the integers 1 through 9 along the x axis and the percentages shown on the y axis) should be:
 - a. Upward sloping to the right.
 - b. Downward sloping to the right.
 - c. Convex.
 - d. Concave.
7. In a large sample of multi-digit integers, numbers beginning with _____ can be expected to appear most frequently.
 - a. 9
 - b. 7
 - c. 5
 - d. 3
 - e. 1
8. Which Excel functions are used in applying Benford's Law?
 - a. LEFT function.
 - b. COUNTIF function.
 - c. Both a and b.
 - d. Neither a nor b.
9. Benford's Law works in the evaluation of counts of:
 - a. Sales.
 - b. Expenses.
 - c. Inventories.
 - d. A, b and c.
 - e. A and b but not c.
10. Which of the following is the third step within the correct sequence of steps recommended whenever Benford's curve fails to materialize?
 - a. Applying analytical review procedures.
 - b. Considering the source.
 - c. Reconsidering the data's suitability for Benford analysis.
 - d. Rethinking internal controls.

Section V. ESOPs Help Some CPA Firms with Retention, Succession (Page 54)

21. ESOPs may be created in:
- a. C corporations.
 - b. S corporations.
 - c. Limited liability companies.
 - d. A, b and c.
 - e. A and b but not c.
22. ESOP participants are subject to income tax on amounts:
- a. Allocated to their individual ESOP accounts.
 - b. Distributed from their individual ESOP accounts.
 - c. Both a and b.
 - d. Neither a nor b.
23. Distributions from ESOP accounts may be rolled over into:
- a. Traditional IRAs.
 - b. Qualified plans of other companies.
 - c. Either a or b.
 - d. Neither a nor b.
24. During the first five years following the attainment of age 55 with at least 10 years of plan participation, an ESOP participant may diversify up to _____ of their shares in their accounts by choosing investments suitable to their retirement years.
- a. 10%
 - b. 15%
 - c. 20%
 - d. 25%
 - e. 50%
25. The amount of employer contributions allocated to an employee's ESOP account and any other employer contributions or employee deferrals into defined contribution plans for an employee with compensation of \$52,000 in 2017 cannot exceed:
- a. \$5,500.
 - b. \$6,500.
 - c. \$26,000.
 - d. \$52,000.
 - e. \$54,000.

Section VI. Tax Updates Featuring Three Tax Columns:

From *The Tax Adviser*: Reverse Like-kind Exchanges Get Tax Court Approval (Page 68))

Tax Practice Corner: More R&D Tax Help (Page 70), and Tax Matters (Page 72.)

26. In *Estate of Bartell*, the Tax Court:
- a. Affirmed that Rev. Proc. 2000-37 establishes a safe harbor.
 - b. Places restraints on parking arrangements that do not satisfy its conditions.
 - c. Both a and b.
 - d. Neither a nor b.
27. Which of the following is not an eligible small business under the PATH Act?
- a. A sole proprietorship with average annual gross receipts of \$21 million.
 - b. A partnership with average annual gross receipts of \$31 million.
 - c. A non-publicly-traded corporation with average annual gross receipts of \$41 million.
 - d. A publicly-traded corporation with average annual gross receipts of \$51 million.
28. Qualified small businesses may apply the R&D credit against:
- a. Payroll tax.
 - b. Regular income tax.
 - c. A and/or b.
 - d. Neither a nor b.
29. In *Summa Holdings, Inc.*, the Sixth Circuit held that:
- a. The substance-over-form doctrine applied.
 - b. Summa's transactions lacked economic substance.
 - c. Both a and b.
 - d. Neither a nor b.
30. In *Moss*, the Tax Court:
- a. Held that Peter Moss was not entitled to married-filing jointly status.
 - b. Allowed Peter Moss to apply the full overpayment of tax from the couple's 2007 joint return to his return.
 - c. Both a and b.
 - d. Neither a nor b.

Sections VII - X and Exam Questions 31 - 50 Relate to the *Journal of Accountancy* of June 2017.

Section VII. What's Your Fraud IQ? (Page 32)

31. Which of the following activities can provide absolute assurance against fraud?
- a. Preventative control activities.
 - b. Detective control activities.
 - c. Both a and b together.
 - d. Neither a nor b.
32. Fraud deterrence is one of the:
- a. Five principles of fraud risk management provided in the Fraud Risk Management Guide.
 - b. Primary objectives of a comprehensive fraud risk management program.
 - c. Both a and b.
 - d. Neither a nor b.
33. Who has overall responsibility for the design and implementation of the fraud risk management program?
- a. The audit committee.
 - b. The board of directors.
 - c. External auditors.
 - d. Internal auditors.
 - e. Senior management.
34. Establishing an organizational culture in which employees know that anyone who attempts to commit fraud will be caught and punished is an example of fraud _____.
- a. Deterrence
 - b. Detection
35. The fraud risk assessment should be conducted by:
- a. External independent consultants.
 - b. An internal team that includes appropriate levels of management.
 - c. Both a and b.
 - d. Neither a nor b.

Section VIII. Audit Documentation: Tips for Getting It Right (Page 38)

36. Oral explanations may be used:
- a. To provide clarification or to supplement the auditor's documentation.
 - b. As a substitute for written documentation to meet the requirements of AU-C Section 230, *Audit Documentation*.
 - c. Both a and b.
 - d. Neither a nor b.
37. Generally accepted auditing standards _____ sufficient written documentation to reflect what auditors have done to support their audit conclusions.
- a. Recommend but do not require
 - b. Require
38. In most instances, auditors _____ the requirements of AU-C Section 230 by signing off on a carefully-crafted audit program.
- a. Cannot meet
 - b. Can meet
39. Paragraph .08 of AU-C Section 230 requires the auditor to document:
- a. The nature, timing and extent of the procedures performed.
 - b. The results of the procedures and the evidence obtained.
 - c. Significant findings or issues arising during the audit, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions.
 - d. A, b and c.
 - e. A and b but not c.
40. Which of the following must the auditor document in writing?
- a. Evidence of the auditor's basis for his or her audit opinion.
 - b. Evidence that the audit was planned and performed in accordance with GAAS, according to paragraph .02 of AU-C Section 230.
 - c. Both a and b.
 - d. Neither a nor b.

Section IX. U.S. Tax and FASB's New Paradigm for Revenue Recognition (Page 62)

41. As of June 2017, the current effective date for FASB Accounting Standards Codification (ASC) Topic 606 for public entities is for annual and interim periods beginning after:
- June 15, 2017.
 - December 15, 2017.
 - June 15, 2018.
 - December 15, 2018.
 - June 15, 2019.
42. What is the correct sequence of the following steps associated with the revenue recognition model suggested by ASC Topic 606?
- Identify the performance obligations of the contract.
 - Identify the contract with a customer.
 - Allocate the transaction price to the appropriate performance obligations of the contract.
 - Determine the transaction price.
 - Recognize revenue when (or as) the performance obligations are satisfied.
- a. 2-1-3-4-5. b. 3-2-1-4-5. c. 2-1-4-3-5. d. 2-3-1-4-5. e. 3-1-2-4-5.
43. Under ASC Topic 606, software companies _____ required to have vendor-specific objective evidence of the fair value of the undelivered elements to separate the undelivered elements from the delivered software license.
- Are
 - Are not
44. Under ASC Topic 606, entities will allocate transaction prices based on:
- The stand-alone selling price.
 - Vendor-specific objective evidence.
 - Both a and b.
 - Neither a nor b.
45. Under ASC Topic 606, revenue will be recognized when:
- The risks and rewards of ownership are transferred.
 - Control of goods is transferred.
 - Both a and b.
 - Neither a nor b.

Section X. Tax Updates Featuring Three Tax Columns:

From *The Tax Adviser: The Growing Trend of Soda Taxes* (Page 72)

Tax Practice Corner: Closed Years Are Fair Game in Examinations of NOL Carryovers (Page 74), and Tax Matters (Page 76.)

46. The newer soda taxes:
- Generally take the form of an excise tax based on the amount of sweetened beverage product sold in the jurisdiction.
 - Are generally imposed on the first wholesale distribution level.
 - Generally take the form of a license or gross receipts tax.
 - A, b and c.
 - A and b but not c.
47. In audits involving net operating loss (NOL) amounts created in years that are closed under the statute of limitations, IRS agents may redetermine the correct taxable income for a closed year to determine:
- The amount of the carryforward deduction reported in the open year.
 - The amount of an NOL deduction that is absorbed in a closed year and supports the determination of the available NOL.
 - Either a or b.
 - Neither a nor b.
48. In *Owens*, the Tax Court ruled that the taxpayer must keep underlying records for _____ years that confirm the NOL amount.
- Open
 - Closed
 - Both a and b
 - Neither a nor b

49. In *Robb Evans & Associates, LLC*, the First Circuit:
- a. Held that the taxpayers, due to their fraud, could not have believed that they had an unrestricted right to the income when they received it.
 - b. Rejected Evans's equity argument.
 - c. Both a and b.
 - d. Neither a nor b.
50. In *Shaffran*, the Tax Court determined that the taxpayer:
- a. Lacked sufficient control over corporate affairs to avoid nonpayment of employment taxes.
 - b. Was not a responsible person for purposes of the employment taxes.
 - c. Lacked authority to disburse funds.
 - d. A, b and c.
 - e. A and b but not c.

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

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