

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

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

QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Third Quarter (July - September), 2017 (Course # 1703)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Information Technology 2, Tax 8. (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 9/30/2019.

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“My son, my son, if you
knew with what little
wisdom the world is ruled.”
...Oxenstierna

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:

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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.

Payment Voucher: Please complete and submit this form with your downloaded Exam(s).

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(For emailing scanned order form or answer sheets)

Name _____
Firm (If part of address) _____
Address _____
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E-mail _____
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–IV and Exam Questions 1 – 20 Relate to the *Journal of Accountancy* of July 2017.

Section I. Focus on Technology using Two Related Articles:

Real Talk about Artificial Intelligence and Blockchain (Page 22) and What is Blockchain? (Page 29)

1. Which of the following can be used for videoconferencing?
 - a. Skype.
 - b. Zoom.
 - c. Amazon Echo.
 - d. A, b and c.
 - e. A and b but not c.

2. Which of the following can be used to conduct surveys?
 - a. SurveyMonkey.
 - b. Chime.
 - c. WebEx.
 - d. A, b and c.
 - e. A and b but not c.

3. Blockchain processes transactions on a(n) _____ ledger.
 - a. Shared
 - b. Immutable
 - c. Both a and b
 - d. Neither a nor b

4. The monetary value of blockchain transactions is measured in:
 - a. U.S. dollars.
 - b. Any standard centralized currency other than the U.S. dollar.
 - c. Digital currencies not controlled by a central bank.
 - d. A, b or c.
 - e. A or b but not c.

5. Blockchain transactions:
 - a. Are fully public.
 - b. Can be altered retroactively.
 - c. Both a and b.
 - d. Neither a nor b

Section II. Planning Opportunities for the Final Tax Return (Page 52)

6. Assume that a taxpayer owns a rental building with an adjusted basis of \$1,000,000, a fair market value of \$1,100,000 and passive suspended losses of \$150,000 and that the taxpayer has no other passive income. If the taxpayer dies during the tax year, up to _____ can be deducted as suspended passive loss on the taxpayer's final income tax return.
 - a. \$0
 - b. \$25,000
 - c. \$50,000
 - d. \$100,000
 - e. \$150,000

7. Capital loss carry forwards:
 - a. Expire upon the taxpayer's death.
 - b. Can be used on the estate's income tax return.
 - c. Can be transferred to the surviving spouse.
 - d. A, b and c.
 - e. A and b but not c.

8. If a taxpayer dies holding property with a fair market value less than its cost basis:
 - a. The cost basis will be stepped down at death.
 - b. The unrealized loss will disappear.
 - c. The unrealized loss cannot be deducted in the future.
 - d. A, b and c.
 - e. A and b but not c.

9. Net operating losses specifically attributable to the decedent:
 - a. May be deducted on the final income tax return of the decedent.
 - b. May be deducted on the federal estate tax return.
 - c. May be deducted by a surviving spouse on future income tax returns.
 - d. A, b and c.
 - e. A and b but not c.

10. Charitable contributions made directly by the decedent in excess of the current year income limitation:
 - a. May be carried forward to future years by the surviving spouse.
 - b. May be used in the year of death against the income of the surviving spouse.
 - c. Either a or b.
 - d. Neither a nor b.

Section III. Factor Presence Nexus: A Growing Trend in State Taxation (Page 58)

11. The Supreme Court's rulings in *National Bellas Hess, Inc. v. Department of Rev.* and *Quill Corp. v. North Dakota* apply to _____ tax(es).
- a. Income
 - b. Gross receipts
 - c. Sales and use
 - d. A, b and c
 - e. A or b but not c
12. Some states employ the concept of economic nexus to justify subjecting a business to _____ tax(es).
- a. Income
 - b. Gross receipts
 - c. Sales and use
 - d. A, b and c
 - e. A or b but not c
13. Of the thresholds established by the Multistate Tax Commission's uniform proposed law, which is (are) at the core for the factor presence nexus?
- a. \$50,000 of property.
 - b. \$50,000 of payroll.
 - c. \$500,000 of sales.
 - d. A, b and c.
 - e. A and b but not c.
14. Which of the following state supreme courts has upheld the constitutionality of the factor presence nexus standard for imposing a commercial activity tax?
- a. California.
 - b. Michigan.
 - c. Texas.
 - d. Pennsylvania.
 - e. Ohio.
15. Which of the following states has (have) explicitly stated that even entities that do not meet any of the MTC thresholds must still determine whether or not it was doing business in the state as defined by state statutes?
- a. Ohio.
 - b. Michigan.
 - c. California.
 - d. A, b or c.
 - e. A and b but not c.

Section IV. Tax Updates Featuring Two Tax Columns:

Tax Practice Corner: Driver's Licenses Pose New Data Security Risks (Page 64) and Tax Matters (Page 66)

16. CPA firms are subject to substantial penalties and sanctions for not properly notifying clients of data breaches. With this risk in mind which of the following methods of collecting a client's driver's license does Joseph Brunsmann recommend?
- a. By secure portal or encrypted email.
 - b. By phone call.
 - c. By regular email.
 - d. A, b or c.
 - e. A or b but not c.
17. In *Phillips*, the Tax Court held that the taxpayer's stock basis _____ be increased because of the loan guarantee.
- a. Should
 - b. Should not
18. In *Castigliola*, the Tax Court held that the attorneys:
- a. Were not limited partners
 - b. Could not exclude their allocations of distributive shares of partnership income other than guaranteed income from net earnings.
 - c. Both a and b.
 - d. Neither a nor b.
19. An eligible small business with qualifying research expenses can now elect to apply up to \$250,000 of its research credit against its:
- a. Payroll tax liability (up to \$250,000).
 - b. Income tax liability.
 - c. A and/or b.
 - d. Neither a nor b.
20. In separate actions on decisions (AODs), the IRS has indicated that it will acquiesce in:
- a. *Stine, LLC*.
 - b. *Shea Homes, Inc.*
 - c. Both a and b.
 - d. Neither a nor b.

Sections V–VIII and Exam Questions 21- 40 Relate to the *Journal of Accountancy* of August 2017.

Section V. Managing the Risks Associated with Models (Page 36)

21. Which of the following represent(s) the first line of defense in modeling risk management?
- Validators.
 - Office of the Comptroller of the Currency.
 - Internal auditors.
 - Model developers.
22. Which of the following represent(s) the second line of defense in modeling risk management?
- Validators.
 - Office of the Comptroller of the Currency.
 - Internal auditors.
 - Model developers.
23. Which of the following represent(s) the third line of defense in modeling risk management?
- Validators.
 - Office of the Comptroller of the Currency.
 - Internal auditors.
 - Model developers.
24. Which of the following techniques for measuring model risk involves developing a new model for comparison to the primary model being used?
- Analytical procedures.
 - Sensitivity analysis.
 - Worst-case method.
 - Challenger models.
25. Which of the following techniques for measuring model risk involves running the model under different scenarios for a given variable?
- Analytical procedures.
 - Sensitivity analysis.
 - Worst-case method.
 - Challenger models.

Section VI. 2017 Tax Software Survey (Page 44)

26. In the 2017 tax software survey, which tax software received the highest overall favorability rating?
- CCH Access Tax.
 - UltraTax CS.
 - ProSystem fx.
 - Drake.
 - Lacerte.
27. In the 2017 tax software survey, which tax software received the highest rating in integration with other accounting software as well as ease of importing data?
- CCH Access Tax.
 - UltraTax CS.
 - ProSystem fx.
 - Drake.
 - Lacerte.
28. In the 2017 tax software survey, which tax software received the most “liked best” votes for ease of use?
- CCH Access Tax.
 - UltraTax CS.
 - ProSystem fx.
 - Drake.
 - Lacerte.
29. In the 2017 tax software survey, which tax software received the highest rating for both the quality of and ease of obtaining technical support?
- CCH Access Tax.
 - UltraTax CS.
 - ProSystem fx.
 - Drake.
 - Lacerte.
30. In the 2017 tax software survey, which tax software received the lowest marks of any major product for how it handled updates?
- CCH Access Tax.
 - UltraTax CS.
 - ProSystem fx.
 - Drake.
 - Lacerte.

Section VII. Internal-Use Software Regs. Could Be Boon for Financial Services Industry (Page 54)

31. Which of the following is (are) eligible for the federal research tax credit?
a. Internal-use software. c. Both a and b.
b. Non-internal-use software. d. Neither a nor b.
32. Which of the following requires a heightened level of innovation and risk to qualify?
a. Internal-use software. b. Non-internal-use software.
33. Costs for unsuccessful programs or projects _____ qualify for the research credit.
a. Do not b. May
34. Software that is designed to _____ generally qualifies for the federal research tax credit.
a. Be sold d. Any of the above
b. Be leased or licensed e. none of the above
c. Interact with third parties
35. The final regulations allow dual-use software to qualify in certain cases and provide a safe harbor when the use of the software exceeds:
a. 10%. b. 20%. c. 30%. d. 40%. e. 50%.

Section VIII. Tax Updates Featuring Two Tax Columns:

From *The Tax Adviser: Use of Trust Disclaimers in Estate Planning* (Page 60) and *Tax Matters* (Page 64)

36. Following proper execution of a qualified disclaimer, the disclaimant may be exempt from _____ tax(es).
a. Estate d. All of the above
b. Gift e. None of the above
c. Generation-skipping transfer
37. In *Adkins*, the Federal Circuit held that:
a. The Adkinses were not required to meet a higher standard to claim their loss in a year after it was discovered than the year it was discovered.
b. It was unnecessary for the Adkinses to have abandoned their arbitration claim to take a tax deduction.
c. Both a and b.
d. Neither a nor b.
38. In *Estate of McKelvey*, the Tax Court held that:
a. The execution of the variable prepaid forward contract (VPFC) extensions did not constitute sales or exchanges of property under Sec. 1001.
b. The open-transaction treatment afforded VPFCs under Rev. Rul. 2003-7 continued until the transaction were closed by the future delivery of stock.
c. The execution of the extensions was not an exchange of property that gave rise to a constructive sale of the stock underlying the VPFCs.
d. A, b and c.
e. A and b but not c.
39. In *Redfield*, the Tax Court held that Redfield:
a. Made a timely and valid foreign earned income exclusion election for 2010.
b. Was entitled to exclude his foreign earnings from gross income pursuant to Sec. 911(a)(1).
c. Both a and b.
d. Neither a nor b.
40. In *Cooke*, the Tax Court held that Cooke:
a. Used the Indiana property for personal purposes for more than 14 days during each year at issue.
b. Disallowed the deductions on Cooke's return.
c. Was not liable for an accuracy-related penalty.
d. A, b and c.
e. A and b but not c.

Section IX and Exam Questions 41 - 50 Relate to the *Journal of Accountancy* of September 2017.

Section IX: Tax Updates Featuring One Tax Article and Three Tax Columns:

A New Discipline for Tax (Page 38)

From *The Tax Adviser*: Employee Discount Plans (Page 46)

Tax Practice Corner: Tax Planning for Millennials (Page 60) and

Tax Matters (Page 62)

41. According to Susan C. Allen in **A New Discipline for Tax**, which of the following is the largest operational challenge faced by the tax function?
 - a. Managing tax deadlines.
 - b. Collaborating between tax and finance teams.
 - c. Data processing and management.
 - d. Giving too much control to one tax person.
 - e. Managing documents and content.

42. Under a Sec. 132(a)(2) employee discount plan, property or services may be provided:
 - a. Directly.
 - b. Through a third-party.
 - c. Either a or b.
 - d. Neither a nor b.

43. Which of the following may be offered in a Sec. 132(a)(2) employee discount plan?
 - a. Property offered for sale in the ordinary course of the taxpayer's trade or business.
 - b. Services offered for sale in the ordinary course of the taxpayer's trade or business.
 - c. Common stock of the employer corporation.
 - d. A, b or c.
 - e. A or b but not c.

44. With respect to Sec. 132(a)(2) employee discount plans, the employee discount:
 - a. Is excludable from the employee's taxable income.
 - b. Associated with products cannot exceed the gross profit percentage of the price at which the product is offered to customers.
 - c. Associated with services cannot exceed 20% of the price at which the service is offered to customers.
 - d. A, b and c.
 - e. A and b but not c.

45. Early distributions of up to \$10,000 from an IRA funded with pretax contributions and used to finance a first-time home purchase are subject to:
 - a. Income tax.
 - b. The early-withdrawal penalty.
 - c. Both a and b.
 - d. Neither a nor b.

46. Self-employed taxpayers may deduct amounts paid for education as ordinary and necessary business expenses from gross self-employment income if used for education that:
 - a. Maintains or improves skills required in ones trade or business or that meets the express requirements of the employer.
 - b. Qualify the taxpayer for a new trade or business.
 - c. Either a or b.
 - d. Neither a nor b.

47. A single taxpayer with AGI of less than \$65,000 is eligible for an above-the-line deduction of up to _____ per year for interest paid on student loan debt.
 - a. \$1,000
 - b. \$2,500
 - c. \$5,000
 - d. \$7,500
 - e. \$10,000

48. In *Steele*, a federal district court held that the IRS has the authority to:
 - a. Require tax return preparers to obtain preparer tax identification numbers.
 - b. Charge a user fee for issuing preparer tax identification numbers.
 - c. Both a and b.
 - d. Neither a nor b.

49. *Rev. Proc. 2017-34* provides a simplified method of obtaining an extension of time to elect portability that is available to estates of decedents that do not have a filing requirement under Sec. 6018(a) for a period ending on:
- January 2, 2018.
 - The second anniversary of the decedent's date of death.
 - The later of a or b.
50. In *Palomares*, the Ninth Circuit ruled that:
- The taxpayer's request was not sufficient to apprise the IRS that she was seeking innocent spouse relief.
 - The submission of the wrong form was not a valid claim.
 - 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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