

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

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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Fourth Quarter (October - December), 2017 (Course # 1704)

A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Accounting 2; Auditing 3; 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** (#17-604), **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 12/31/2019.

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"It ain't what you don't know that gets you into trouble. It's what you know for sure but just ain't so." -- Mark Twain

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

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 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.

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 October 2017.

Section I. News Digest (Page 9)

1. An auditor's involvement with an exempt offering document is established under SAS No. 133 if:
 - a. The auditor's report on financial statements or the auditor's review report on interim financial information is included or incorporated by reference in an exempt offering document.
 - b. The auditor performs one or more specified activities with respect to the exempt offering document.
 - c. Both a and b.
 - d. Neither a nor b.

2. SAS No. 133 will be effective for exempt offering documents that are initially distributed, circulated or submitted on or after:
 - a. March 15, 2018.
 - b. June 15, 2018.
 - c. September 15, 2018.
 - d. December 15, 2018.
 - e. March 15, 2019.

3. In a recent study by the AICPA Peer Review team, which of the following factors did not have a strong correlation with quality performance in the sample?
 - a. Membership in the AICPA GAQC.
 - b. Size of the single audit practice.
 - c. Qualifications of the engagement partner.
 - d. Size of the overall audit firm.

4. The PCAOB has reported finding audit difficulties in _____ of the broker/dealer audit firms inspected in its 2016 audit cycle.
 - a. 23%
 - b. 41%
 - c. 57%
 - d. 72%
 - e. 97%

5. The PCAOB has reported finding audit difficulties in _____ of the broker/dealer audits inspected in its 2016 audit cycle.
 - a. 18%
 - b. 36%
 - c. 51%
 - d. 83%
 - e. 98%

Section II. Exploring the Estate Tax: Part 1 (Page 20)

6. The estate of a married taxpayer dying and leaving a gross estate totaling \$6,000,000 to his or her spouse in 2017 may exclude up to:
 - a. \$1,000,000
 - b. \$2,000,000.
 - c. \$3,000,000.
 - d. \$5,490,000.
 - e. \$6,000,000.

7. Executors can claim all or part of the medical expenses owed at death on the:
 - a. Decedent's final tax return.
 - b. Estate tax return.
 - c. Either a or b.
 - d. Neither a nor b.

8. The tentative estate tax on an individual's estate base of \$11,000,000 is:
 - a. \$0.
 - b. \$2,172,900.
 - c. \$2,200,000.
 - d. \$4,345,800.
 - e. \$4,400,000.

9. The unified credit for the estate referenced in question # 8 above is:
 - a. \$0.
 - b. \$1,048,000.
 - c. \$2,141,800.
 - d. \$2,196,000.
 - e. \$4,400,000.

10. Assume that the executor of an estate with a tax base of \$3,500,000 makes a portability election in 2017. His or her spouse would have an applicable exclusion amount in 2017 of:
 - a. \$0.
 - b. \$1,990,000.
 - c. \$5,490,000.
 - d. \$7,480,000.
 - e. \$8,480,000.

Section III. Tax Update Featuring Three Tax Columns:

From *The Tax Adviser: Accounting Method Changes Make Closed Years Relevant* (Page 46)

Tax Practice Corner: Wellness Program Benefits: Tax Free or Not? (Page 56) and

Tax Matters (Page 58)

11. The Fifth Circuit's ruling in *Bosamia*:
 - a. Is about an express extension of the three-year limitation period.
 - b. Effectively resulted in an extended limitation period by making closed-year issues relevant in an open year.
 - c. Both a and b.
 - d. Neither a nor b.

12. Under Chief Counsel Advice (CCA) 201622031, which of the following items would be taxable to the employee participating in a wellness program?
 - a. Cash payments for participating in a wellness program.
 - b. Gym memberships that are not medically necessary.
 - c. Gym memberships that are medically necessary.
 - d. A, b and c.
 - e. A and b but not c.
13. In which of the following cases would the wellness program benefit likely be taxable to the employee?
 - a. When employees are reimbursed for their contributions of pretax earnings.
 - b. When an employer is directly funding benefits that are not Sec. 213(d) medical expenses.
 - c. Either a or b.
 - d. Neither a nor b.
14. In 2017, the income tax liability of a self-employed taxpayer who qualifies for a Section 36B premium tax credit of \$800 and received advance credit payments of \$1,000 is:
 - a. Increased by \$200.
 - b. Increased by \$800.
 - c. Increased by \$1,000.
 - d. Decreased by \$200.
 - e. Decreased by \$800.
15. In *Jacobs*, the Tax Court determined that the pre-game meals provided to the Boston Bruins personnel:
 - a. Were offered to all traveling staff.
 - b. Qualified as a *de minimis* fringe benefit.
 - c. Were subject to the Sec. 274(n)(1) 50% limitation.
 - d. A, b and c.
 - e. A and b but not c.

Sections IV–VII and Questions 16- 35 Relate to the *Journal of Accountancy* of November, 2017.

Section IV. Four Strategies for Efficient, Effective Audit Documentation (Page 26)

16. According to an AICPA study, the most common audit issue is:
 - a. Failure to gather sufficient audit evidence.
 - b. Lack of adequate documentation.
 - c. Failure to properly assess inherent risk.
 - d. Deficiencies in confirming accounts receivable.
 - e. Failure to design an effective audit program.
17. The foundation of an efficient and effective audit is:
 - a. Determination of the purpose of the audit.
 - b. Determination of the scope of the audit.
 - c. Determination of the intended thrust of the audit.
 - d. Getting adequate support from the firm's partners.
 - e. A sound audit plan.
18. Which of the following approaches does Mark Koziel recommend for improving audit efficiency and effectiveness?
 - a. Adopting a “same-as-last-year” approach for planning an audit.
 - b. Strictly following all of the procedures appearing on a third-party provider's audit program.
 - c. Both a and b.
 - d. Neither a nor b.
19. Auditors who wish to follow Koziel's recommendations should use standardized:
 - a. Working papers.
 - b. Tick marks.
 - c. Both a and b.
 - d. Neither a nor b.
20. Auditors should prepare their documentation:
 - a. As soon as possible after performing each audit step.
 - b. Only after the auditor has taken a day or two to carefully reflect on the procedure's findings.
 - c. Only after the audit has been completed.
 - d. Only after the audit report has been issued.

Section V. Improving Internal Control over Segment Reporting (Page 36)

21. According to ASC Topic 280, the chief operating decision-maker (CODM) in a public entity refers to:
- A manager with a specific title.
 - A person who has ultimate decision-making authority.
 - A specific function within the company that allocates resources and assesses performance of the segments.
 - A, b and c.
 - A and b but not c.
22. Reporting entities should prepare and preserve documentation to support their decisions regarding:
- The identification of the chief operating decision-maker.
 - The identification of operating segments.
 - The aggregation of operating segments.
 - A, b and c.
 - A and b but not c.
23. In which of the following companies did the SEC question the identification of operating segments?
- | | |
|----------------------------------|-----------------------|
| a. Graphic Packaging Holding Co. | d. A, b and c. |
| b. Community Health Systems Inc. | e. A and b but not c. |
| c. Hain Celestial Group. | |
24. In which of the following companies did the SEC question the identification of the CODM?
- | | |
|-------------------------------|-----------------------|
| a. PowerSecure International. | d. A, b and c. |
| b. Hain Celestial. | e. A and b but not c. |
| c. NRG Energy Inc. | |
25. In which of the following companies did the SEC question the aggregation of the operating segments?
- | | |
|-------------------------------|-----------------------|
| a. PowerSecure International. | d. A, b and c. |
| b. Hain Celestial. | e. A and b but not c. |
| c. NRG Energy Inc. | |

Section VI. Exploring the Estate Tax: Part 2 (Page 50)

26. Which of the following would generally qualify for the marital deduction?
- | | |
|--|-----------------------|
| a. Nonterminable interests in property. | d. A, b and c. |
| b. Qualified terminable interest property. | e. A and b but not c. |
| c. Terminable interest in property. | |
27. Assume that X and Y are a married couple who had the following estate bases (before the marital deduction) upon death: X: \$8 million and Y: \$11 million. Also assume that both X and Y died in 2017 and that each spouse left his or her entire estate to the surviving spouse. Upon the surviving spouse's death, the estate's net estate tax liability would have been:
- | | | | | |
|---------|-------------|-----------------|-----------------|-----------------|
| a. \$0. | b. \$8,000. | c. \$3,208,000. | d. \$5,404,000. | e. \$5,412,000. |
|---------|-------------|-----------------|-----------------|-----------------|
28. In a family trust:
- The decedent would get a marital deduction for the amount placed in the family trust.
 - The family trust assets get a stepped-up basis upon the death of the surviving spouse.
 - Both a and b.
 - Neither a nor b.
29. In a family trust, the _____ bypass(es) the survivor's estate.
- | | |
|--|--------------------|
| a. Exclusion amount | c. Both a and b |
| b. Appreciation on the family trust assets | d. Neither a nor b |
30. Life insurance proceeds are excluded from the gross estate if the:
- Life insurance policy is owned by an irrevocable life insurance trust.
 - Estate is the beneficiary of the policy.
 - The decedent possessed incidents of ownership.
 - A, b or c.
 - A or b but not c.

Section VII. Tax Update Featuring Three Tax Columns:

From *The Tax Adviser: When Will I Get My Refund?* (Page 58)

Tax Practice Corner: Trading Virtual Currencies (Page 60) and Tax Matters (Page 64)

31. To file a claim for a credit or refund relating to a timely-filed return, the taxpayer must generally file within _____ year(s) from the date of filing the tax return or _____ years from the date the tax was paid, whichever is later.
- a. Two...one
 - b. Three...two
 - c. Four...three
 - d. Two...three
 - e. One...two
32. Which of the following transactions is (are) taxable?
- a. The sale of a bitcoin resulting in proceeds greater than cost.
 - b. Profitable exchanges of virtual currencies assuming like-kind exchange rules do not apply.
 - c. Both a and b.
 - d. Neither a nor b.
33. In *Avrahami*, the Tax Court held that:
- a. Amounts paid to Feedback and Pan American were insurance premiums for federal tax purposes.
 - b. Feedback was eligible to be taxed as a small insurance company under Sec. 831(b).
 - c. Both a and b.
 - d. Neither a nor b.
34. In *Owens*, the Tax Court held that Owens:
- a. Was in the trade or business of lending money.
 - b. Spent sufficient time related to his personal lending.
 - c. Actively sought new customers by using aggressive advertising.
 - d. A, b and c.
 - e. A and b but not c.
35. In *Losantiville Country Club*, the Tax Court held that Losantiville:
- a. Did not demonstrate an intent to profit from its nonmember sales.
 - b. Could not use losses from nonmember sales to offset its taxable investment income.
 - 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 2017

Section VIII. Lessons to Learn from SEC Accounting and Auditing Enforcements (Page 26)

36. During the years 2008 - 2014, which of the following categories of fraud occurred most frequently?
- a. Acts of foreign corruption.
 - b. Violations of standards set by the PCAOB.
 - c. Bribery.
 - d. Financial reporting.
 - e. Independence violations.
37. During the years 2008 – 2014, which of the following categories of fraud resulted in the highest penalty per incident?
- a. Acts of foreign corruption.
 - b. Violations of standards set by the PCAOB.
 - c. Bribery.
 - d. Financial fraud.
 - e. Independence violations.
38. During the years 2008 – 2014, which of the following industries was assessed the largest total dollar amount of penalties?
- a. Metals and mining.
 - b. Banking.
 - c. Health.
 - d. Financial services.
 - e. Energy.

39. During the years 2008 – 2014, fraud charges enforced by the SEC were most often directed to the:
- a. CFO.
 - b. Partners.
 - c. CEO.
 - d. Directors.
 - e. CPAs
40. During the years 2008 – 2014, which of the following received the largest total dollar amount of assessed fines?
- a. CFOs.
 - b. CEOs.
 - c. CPAs.
 - d. Directors.
 - e. Corporations.

Section IX. How to Audit Fair Value Measurements (Page 32)

41. Management's prospective financial information:
- a. Is the responsibility of management.
 - b. Is often one of the primary inputs into a fair value estimate.
 - c. Must be reviewed by valuation professionals.
 - d. A, b and c.
 - e. A and b but not c.
42. ASC Paragraph 820-10-35-24c _____ that management default to using the same discount rate used on the transaction date for subsequent measurement dates.
- a. Requires
 - b. Does not allow
43. Which of the following explicitly require(s) back-testing?
- a. Topic 820.
 - b. Topic 855.
 - c. Both a and b.
 - d. Neither a nor b.
44. PCAOB AS 1210 applies when:
- a. The client retains a third-party valuation professional.
 - b. The auditor retains a valuation professional to help evaluate management's fair value estimate.
 - c. Either a or b.
 - d. Neither a nor b.
45. Mandatory Performance Framework (MPF) Section 1.4 _____ valuation professionals to provide in the work file sufficient documentation to support a conclusion of value which would allow an “experienced” professional not involved in the valuation engagement to review and understand the significant inputs, analyses and outputs, and how they support the final conclusion of value.
- a. Encourages but does not require
 - b. Requires

Section X. Tax Update Using Two Tax Columns:

From *The Tax Adviser: S Corp. Basis and Why It's Important* (Page 59) and *Tax Matters* (Page 64)

46. Which of the following does not increase a shareholder's basis in an S corporation's stock?
- a. Cost of original purchase of stock.
 - b. Additional equity contributions.
 - c. Distributions passed through to the shareholder during the time the stock is owned.
 - d. Cumulative net income.
47. Before reporting a deductible S corporation loss, shareholders must pass the _____ test(s).
- a. Basis
 - b. At-risk
 - c. Passive activity
 - d. A, b and c
 - e. A and b but not c

48. In *Estate of Sower*, the Tax Court:
- Rejected the estate's argument regarding the estate tax closing document because it found that the closing document was not a Sec. 7121 closing agreement.
 - Found that Sec. 2010(c)(5)(B) does not give the IRS the power to examine the estate tax return of a predeceased spouse.
 - Determined that the effective date precluded the IRS from adjusting the deceased spousal unused exclusion (DSUE).
 - A, b and c.
 - A and b but not c.
49. In *McGuire*, the taxpayers:
- Reported an advance premium tax credit of \$7,092 on their 2014 tax return.
 - Qualified for the premium subsidy for 2014.
 - Were liable for an accuracy-related penalty.
 - A, b and c.
 - None of the above.
50. In *Gowen*, the Tax Court:
- Held that the default resulted in a deemed distribution.
 - Upheld the 10% additional tax due on early distributions.
 - Sustained an accuracy-related penalty.
 - A, b and c.
 - A and b but not c.

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