QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Third Quarter (July - September), 2018 (Course # 1803)
A Formal CPE Course using the *JoA* as Reference Material **Recommended**

**CPE Credit: 10 Hours (Category: Interactive Self Study)**

Subject division: Attest 2; Tax 7; Finance 1. (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.

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

**For CPE credit, this exam must be completed by 9/30/2020.**

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“A small bunch of people who know what they are
doing can accomplish more than a big group of
people who don't know what they are doing.”
...Robert Noyce

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: Post Office Box 4192
Greensboro, NC 27404-4192

*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:
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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.
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Name ___________________________________________  
Firm (If part of address) ____________________________  
Address __________________________________________  
City/State/Zip ___________________________________________  
Phone ___________________________ E-mail ___________________________ To which state board(s) do you report CPE? ________________  
Source of referral if applicable: ___________________________________________

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

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<tr>
<th>Quantity</th>
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<td>First Quarter (January - March), 20_____</td>
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<td>Fourth Quarter (October - December), 20_____</td>
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_____ 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:

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(Take a dollar off each exam you pay by check.)

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PLEASE DO NOT SEND CREDIT CARD# TO AEA.

Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.
Section I. EBP Audits: Don't Let Your Guard Down (Page 34)

1. Benefit-responsive contracts guarantee contract value when the fair market value of the underlying assets is________ than the contract values.
   a. More b. Less c. Either a or b

2. In EBP audits, practitioners must document any procedures on:
   a. Internal controls assessment.
   b. Administrative expenses.
   c. Subsequent events and commitments and contingencies.
   d. Parties in interest and related parties as well as risk assessment.
   e. All of the above.

3. The most frequently seen disclosure problem in audits of EBP financial statements relates to:
   a. Omission of disclosures particular to health and welfare plans.
   b. Failure to include the reconciliation between the amounts in Form 5500 and the financial statements.
   c. Omissions or errors in the fair value disclosures required by FASB ASC Topic 820, *Fair Value Measurement*.
   d. Failure to attach the schedule of assets held at the end of the year to the financial statements.
   e. Failure to present investment income exclusive of changes in fair value.

4. In a limited-scope EBP audit:
   a. The auditor's report must indicate that a limited-scope audit was performed.
   b. The auditor must disclaim an opinion on the financial statements and supplemental schedules taken as a whole.
   c. Both a and b.
   d. Neither a nor b.

5. In full-scope audits, the auditor's report must contain an opinion on:
   a. All the statements included in the financial statements, or on supplemental information attached to the financial statements.
   b. The prior-year financial statements that were presented.
   c. Both a and b.
   d. Neither a nor b.

Section II. Analyzing the New Personal Casualty Loss Tax Rules (Page 54)

6. Taxpayers may elect to take a deduction in _____ for a loss sustained in 2017 within a disaster area determined to warrant federal assistance and attributable to a federally declared disaster.
   a. 2016 b. 2017 c. Either a or b d. Neither a nor b

7. Taxpayers may elect to take a deduction in _______ for a loss sustained in 2017 in an outlying area not designated a disaster area determined to warrant federal assistance and attributable to a federally declared disaster.
   a. 2016 b. 2017 c. Either a or b d. Neither a nor b

8. Who has the authority to determine what constitutes a federally declared disaster?
   a. The Supreme Court of the United States.
   b. The Congress of the United States.
   c. The President of the United States.
   d. The governor of the state where the disaster occurred.
9. Under the Disaster Tax Relief Act, taxpayers who ______ may be eligible for a net disaster loss.
   a. Itemize their deductions  
   b. Claim the standard deduction  
   c. Either a or b  
   d. Neither a nor b

10. Under Rev. Proc. 2018, which of the following is (are) considered a personal-use residence?
   a. Real property that contains at least one personal residence.
   b. Real property that contains at least one personal residence as well as a home office used in a trade or business.
   c. A mobile home.
   d. A, b and c.
   e. A and b but not c.

11. Which of the following safe harbors can be used by taxpayers who suffer casualties from federally declared disasters?
    a. Estimated repair costs method.
    b. *De minimis* method.
    c. Contractor method.
    d. A, b and c.
    e. A and b but not c.

12. Which of the following safe harbors can be used by taxpayers who suffer casualties other than federally declared disasters?
    a. Estimated repair costs method.
    b. *De minimis* method.
    c. Contractor method.
    d. A, b and c.
    e. A and b but not c.

13. Which of the following costs may taxpayers consider when applying any of the five safe harbor methods for measuring a decline in the fair market value of personal use residential real property?
    a. The costs to return a property to its original condition immediately before a casualty.
    b. The costs of meeting newer construction codes and requirements.
    c. Both a and b.
    d. Neither a nor b.

14. Which of the following safe harbor methods may be used to measure a decrease in the fair market value of personal belongings resulting from a casualty from other than a federally declared disaster?
    a. Replacement cost method.
    b. *De minimis* method.
    c. Both a and b.
    d. Neither a nor b.

15. Which of the following offer(s) a cost index safe harbor?
    c. Both a and b.
    d. Neither a nor b.

Section III. Tax Updates Featuring Three Tax Columns:
From *The Tax Adviser*: Explaining Refund Payment Delays to Clients (Page 60)
Tax Practice Corner: Claiming Child Tax Benefits for Noncustodial Parents (Page 62)
Tax Matters (Page 64)

16. The Protecting Americans From Tax Hikes (PATH) Act of 2015 prohibits the IRS from issuing refunds for _____ until February 15.
    a. The earned income tax credit  
    b. The additional child tax credit  
    c. The home office deduction  
    d. A, b or c  
    e. A or b but not c

17. The IRS's proposed regulations provide guidance for:
    a. Noncustodial parents to attach a copy of a properly executed Form 8332 or written declaration on their returns.
    b. A custodial parent to revoke the release.
    c. Either a or b.
    d. Neither a nor b.

18. Assume that DISP Corp. has three-year average annual sales of $1 billion, business interest income of $1,000,000, adjusted taxable income of $50 million for the 2018 tax year, and floor plan interest of $2 million for the 2018 tax year. The TCJA limits DISP Corp.’s business interest expense to _____ million.
    a. $16  
    b. $18  
    c. $38  
    d. $50  
    e. $53
19. In *Wendell Falls Development, LLC*, the tax court held that:
   a. Access to the park would increase the value of the lots.
   b. There could be no charitable contribution deductions because the donated easement had no value.
   c. Wendell Falls was liable for a penalty related to its tax reporting of the easement donation.
   d. A, b and c.
   e. A and b but not c.

20. In *Berenson*, the First Circuit held that the transaction violated the ______ of the relevant statutory provisions.
   a. Letter  c. Both a and b
   b. Purpose d. Neither a nor b

Sections IV–VI and Exam Questions 21-35 Relate to the *Journal of Accountancy* of August 2018.

Section IV. Attest Update Featuring Three *JofA* Articles:

*How the Evolution of Language Affects Fraud Risk* (Page 18)
*Taking the Risk Out of Risk Assessment* (Page 38)

21. AR-C Section 100 in the AICPA *Professional Standards* provides requirements and guidance for an accountant to perform a compilation or review when:
   a. The financial statements have been prepared in accordance with a financial reporting framework generally accepted in another country.
   b. The compilation or review is to be performed in accordance with both SSARSs and another set of compilation or review standards.
   c. Either a or b.
   d. Neither a nor b.

22. The provisions of SSARS No. 24 take effect for compilations and reviews of financial statements for periods ending on or after:

23. A majority of respondents to Smarsh's 2017 Electronic Communications Compliance Survey Report cited ________ as the type of non-email content that is the greatest compliance risk to their organization.
   a. Social media  c. Message boards
   b. Text/SMS messaging d. Industry forums

24. Which of the following is the greater concern when selecting and designing substantive audit procedures without considering the risk assessment?
   a. Under-auditing.
   b. Over-auditing.

25. All of the following practices are recommended in audit engagements except:
   a. Identifying the client's risks including any significant risks.
   b. Designing and performing procedures that specifically address any significant risks.
   c. Obtaining a strong understanding of your client and its environment, including the system of internal control.
   d. Applying the same steps used in the previous period's audit.
   e. Documenting the linkage between your risk assessment and the procedures on your audit programs.

Section V. Personal Financial Planning Update Featuring Three *JofA* Articles:

*Preventing Elder Fraud* (Page 14), *FIRE-d Up for Early Retirement* (Page 32), and *Advising Chronically or Terminally Ill Clients* (Page 44)

26. Which of the following steps should an AICPA member take to address elder fraud?
   a. Educate elderly clients as well as clients with elderly parents.
   b. Establish a relationship with clients' adult children.
   c. Notify third parties of suspicious activity involving a client without using the client's specific information.
   d. A, b and c.
   e. A and b but not c.
27. Assume that Susan retired at age 40 and immediately began to convert her traditional IRA to a Roth IRA over each of the following ten years. At age 52, she began taking annual distributions from her Roth IRA. Susan will be subject to:
   a. Income tax on each of the conversions from her traditional IRA to her Roth IRA.
   b. 10% additional tax on each distribution from her Roth IRA.
   c. Income tax on each distribution from her Roth IRA until reaching age 59 ½.
   d. A, b and c.
   e. A and b but not c.

28. Many FIRE adherents recommend an annual withdrawal rate of _____ from portfolios in retirement.
   a. 2%        b. 3%        c. 4%        d. 5%        e. 6%

29. Which of the following is not a key element of the care budget?
   a. Determining care-related expenses.
   b. Determining non-care-related income and expenses.
   c. Determining the level of family and community support.
   d. Determining care-related income.
   e. Calculating the monthly surplus or deficit and creating a care balance sheet.

30. Which of the following exercises is most likely to identify a need to find more sources of funding?
   a. Determining care-related expenses.
   b. Determining non-care-related income and expenses.
   c. Determining the level of family and community support.
   d. Determining care-related income.
   e. Calculating the monthly surplus or deficit and creating a care balance sheet.

Section VI. Tax Updates Featuring Two JofA Tax Columns:
   From The Tax Adviser: Client Communications Protected by Sec. 7525 (Page 60)
   Tax Practice Corner: SEPs: Simple But Not Always Optimal (Page 62)

31. The Sec. 7525 privilege may apply to noncriminal matters between a federally authorized tax practitioner and:
   a. A client.
   b. Someone in the process of becoming a client.
   c. Someone who will never become a client.
   d. A, b and c.
   e. A and b but not c.

32. The ________ privilege can be waived if the communications are disclosed to others.
   a. Tax practitioner-client            c. Both a and b
   b. Attorney-client                  d. Neither a nor b

33. The net business income for a 49-year-old self-employed individual required to qualify for the maximum deduction is $________ in a 401(k) or $________ in a SEP-IRA.
   a. 220,000...146,000
   b. 146,000...220,000
   c. 275,000...182,500
   d. 182,500...275,000
   e. 220,000...220,000

34. Unlike SEP-IRAs, 401(k) plans require:
   a. Universal eligibility.
   b. That all compensation must count when calculating a company contribution.
   c. Both a and b.
   d. Neither a nor b.

35. Unlike SEP-IRAs, 401(k) plans can allow employees to:
   a. Make voluntary salary deferrals.
   b. Take loans or hardship withdrawals from the plan.
   c. Both a and b.
   d. Neither a nor b.

Section VII. 2018 Tax Software Survey (Page 44)

36. Which tax preparation software was the favorite of single-member tax preparer firms?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

37. Which tax preparation software was the favorite of CPA firms with 6 to 20 tax preparers?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

38. Which tax preparation software received the highest marks for accuracy?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

39. Which tax preparation software was the only product for which a significant percentage of respondents were in firms that prepared more than 5,000 returns?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

40. Which tax preparation software received the highest marks for price?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

41. Which tax preparation software received the highest marks for ease of use?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

42. Which tax preparation software was most associated with a “steep learning curve?”
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

43. The top “best-liked feature” of all major products was:
   a. Number of forms/comprehensiveness.  
   b. Support.  
   c. Accuracy.  
   d. Ease of use.  
   e. Price.

44. Which tax preparation software was most often faulted for the quality of its support?
   a. CCH Axcess Tax.  
   b. CCH ProSystem fx.  
   c. Drake.  
   d. ProSeries.  
   e. UltraTax CS.

Section VIII. Tax Updates Featuring Three Tax Columns:
   From The Tax Adviser: Profit Motive Key in Hobby Loss Cases (Page 52)
   Tax Practice Corner: Vacation Home Rentals and the TCJA (Page 54) and
   Tax Matters (Page 58)

45. In Williams, the Tax Court held that the taxpayer had:
   a. Engaged the services of a bookkeeper and a CPA.  
   b. Established a formal written business plan.  
   c. Devoted sufficient time to the ranching activity.  
   d. A, b and c.  
   e. A and b but not c.
46. In *Welch*, the Tax Court held that the taxpayer had:
   a. Maintained daily contact with the ranch manager.
   b. Employed 25 experienced workers.
   c. Established a written business plan.
   d. A, b and c.
   e. A and b but not c.

47. In allocating expenses associated with short-term rental of mixed-use vacation houses under the TCJA:
   a. The court method is better than the IRS method for taxpayers who itemize their deductions.
   b. The IRS method is better than the court method for taxpayers who use the standard deduction.
   c. Taxpayers must compare the estimated amount of real estate taxes and mortgage interest allowed to the estimated net rental income.
   d. None of the above.

48. In which of the following cases did the U.S. Supreme Court hold that, for sales tax purposes, physical presence in a state is necessary for a seller to have nexus with the state?
   a. *Quill Corp. v. North Dakota*.
   b. *National Bellas Hess v. Department of Revenue*.
   d. A, b and c.
   e. A and b but not c.

49. In *Caselli*, the Tax Court held that an S corporation shareholder could retroactively:
   a. Revoke an S corporation's election to deduct FICA taxes paid.
   b. Claim a Sec. 45B credit.
   c. Both a and b.
   d. Neither a nor b.

50. In *Hamilton*, the Tax Court held that:
   a. $158,511 of COD income should be included in gross income of their 2011 tax return.
   b. The taxpayers were subject to late-filing penalty.
   c. The taxpayers must pay the accuracy-related penalty.
   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*

*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.