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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Fourth Quarter (October - December), 2018 (Course # 1804)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Attest 1; Tax 3; Finance 1.5; Mgt. 3.5; IT 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** (#PX000005-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 12/31/2020.

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“Optimism is an essential ingredient of innovation. How else can the individual welcome change over security, adventure over staying in safe places.”
...Robert Noyce – co-founder of Fairchild Semiconductor and Intel Corporation.

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 can be completed in your home or office without the inconvenience and high costs associated with many CPE courses. New courses normally appear on 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 36 years (since 1982). AEA is not affiliated with the AICPA that holds the copyright to the *Journal of Accountancy*.

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HOW TO CONTACT AEA:

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Greensboro, NC 27404

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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.

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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 *JofA* that I've downloaded from www.accounting-education.com

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.)

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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.

Sections I–IV and Exam Questions 1–25 Relate to the *Journal of Accountancy* of October 2018.

Section I. Bank-Financing an Accounting Practice Sale (Page 20)

1. Most banks will finance a business purchase if:
 - a. The business is profitable.
 - b. There is low employee turnover.
 - c. There is adequate tangible collateral.
 - d. The business has no long term debt.
 - e. Both a and d.

2. The US Small Business Administration established the 7(a) Loan Program to provide loan amounts up to:
 - a. \$500,000.
 - b. \$1,000,000.
 - c. \$2,500,000.
 - d. \$5,000,000.
 - e. \$10,000,000.

3. The majority of accounting practice sales can be financed with an SBA 7(a) loan provided:
 - a. The buyer has good credit.
 - b. The buyer has an adequate down payment.
 - c. The practice is profitable.
 - d. a and b.
 - e. a, b and c.

4. It is optimal to choose a lender qualified under the Preferred Lenders Program because::
 - a. Preferred Lenders are required to use standard submission.
 - b. Preferred Lender loans are underwritten twice.
 - c. Preferred Lenders underwrite the loan without sending it to the SBA.
 - d. The Preferred Lenders program is much faster than standard submission.
 - e. c and d.

5. It is important to talk to several SBA preferred lenders before applying for a loan because:
 - a. Some lenders offer 15 year amortization.
 - b. Some lenders do not require a down payment.
 - c. There are vast differences in underwriting standards.
 - d. Some lenders do not require a personal guarantee.
 - e. Some lenders do not require collateral.

6. Starting January 1, 2018 the minimum equity injection must be _____ of total project costs.
 - a. 5%
 - b. 10%
 - c. 15%
 - d. 20%
 - e. 25%

7. Some lenders may:
 - a. Require an equity injection greater than 10%.
 - b. Allow preexisting equity in a firm owned by the buyer to be used to satisfy the the equity injection requirement.
 - c. Require an equity injection equal to three months of working capital.
 - d. a and b.
 - e. a b and c.

8. Total project costs must include the purchase price and:
 - a. Working capital.
 - b. Attorney fees.
 - c. SBA fees.
 - d. b and c.
 - e. a, b and c.

Section II. Critical Audit Matters Coming into Focus (Page 26)

9. The first phase of implementation of AS 3101 affects audits of companies with the fiscal years ending on or after .
 - a. December 15, 2017.
 - b. December 31, 2017.
 - c. December 15, 2018.
 - d. June 30, 2019.
 - e. December 15, 2020.
10. The second phase of implementation of AS 3101 requires disclosure in the auditor's report of:
 - a. Auditor tenure.
 - b. Issues that may affect going concern.
 - c. The existence of any SEC inquiries with the company.
 - d. All matters discussed with the audit committee.
 - e. Critical audit matters.
11. Critical audit matters do not include:
 - a. Items already communicated to the audit committee.
 - b. Items that are immaterial.
 - c. Contingent items included in the client representation letter.
 - d. Items already disclosed in the footnotes.
 - e. Any estimates supported by third-party assurance.
12. AS 3101 is intended to provide _____ with more comprehensive information.
 - a. Officers.
 - b. Directors.
 - c. Investors.
 - d. Employees.
 - e. Management.
13. AS 3101 requires auditors to:
 - a. Identify a Critical Audit Matter (CAM).
 - b. Describe the principal considerations that led to the selection of the CAM.
 - c. Conclude the CAM will not affect future results.
 - d. a and b.
 - e. a, b and c.

Section III. Benchmarking the Features of a 401(k) Plan (Page 30)

14. Business owners who sponsor retirement plans have fiduciary responsibilities that include:
 - a. Employee safety.
 - b. Plan design and management.
 - c. Participant communication.
 - d. b and c.
 - e. a, b and c.
15. Beginning 2012 the Department of Labor required annual disclosure of _____ to plan sponsors and participants.
 - a. Annualized investment returns.
 - b. Total plan fees.
 - c. Annual return compared to benchmark funds.
 - d. Investment risk tolerance.
 - e. 3(21) plan fees.

16. Under ERISA Section 404(c), if participants can exercise control over their account assets, the plan sponsor must:
 - a. Notify the Department of Labor on Schedule A of Form 5500.
 - b. Have the employee sign an “opt out” statement.
 - c. Notify the participant's spouse and named beneficiaries.
 - d. Provide an educational workshop or other sufficient information to allow the participant to make informed decisions.
 - e. Charge the participant's account 50% of the average plan fee.
17. Professionally managed asset allocation models can include:
 - a. Risk tolerance based models with three to five diversified models.
 - b. Fixed return models.
 - c. Target date models.
 - d. a and b.
 - e. a and c.
18. A plan sponsor may “force out” terminated participants by sending a check directly to the participant if:
 - a. Their account balance is less than \$1,000.
 - b. Their account balance is between \$1,000 and \$5,000.
 - c. Their account balance exceeds \$5,000 and the sponsor has written spousal consent.
 - d. The participant is disabled or terminally ill.
 - e. The participant has a demonstrated need for medical or education expenses.
19. Annual disclosures must be distributed to:
 - a. All terminated participants.
 - b. All active participants.
 - c. All eligible participants.
 - d. a, b and c.
 - e. b and c.
20. Asset fees are generally based upon the level of plan assets and should:
 - a. Tier down (as a percentage of assets) as plan assets increase.
 - b. Tier up (as a percentage of assets) as plan assets increase.
 - c. Remain flat regardless of plan asset levels.
 - d. Include administrative fees.
 - e. Always include investment management fees.

Section IV. Tax Reform Law Deals Pro Gamblers a Losing Hand (Page 42)

21. How a taxpayer claims gambling deductions depends on whether:
 - a. Winnings exceed \$600 for the tax year.
 - b. Winnings are reported on a Form 1099-MISC.
 - c. The taxpayer files a Schedule A.
 - d. The taxpayer's gambling is a trade or business.
 - e. The taxpayer's operates as a corporation or LLC.
22. A taxpayer not engaged in the business of gambling can deduct wagering losses:
 - a. As a miscellaneous itemized deduction, subject to the 2% of AGI threshold.
 - b. To the extent of gambling winnings.
 - c. As a miscellaneous itemized deduction not subject to the 2% of AGI threshold.
 - d. a and b.
 - e. b and c.
23. The House of Representatives clarified the language of Sec 165(d) as amended by the Tax Cuts and Jobs Act of 2017 by stating “...the limitation on losses from wagering applies not only to the cost of wagers incurred (ie: losing wagers) but to:
 - a. All other expenses in connection with the gambling activity.
 - b. Home office expenses.
 - c. Meals and entertainment expenses.
 - d. Tips and gratuities.
 - e. c and d.

24. Taxpayer is a non-professional (casual) gambler. Determine the proper reporting of their gambling activities for 2018 under the following facts:

Gross Winnings	\$20,000
Losing wagers	-15,000
Travel expenses	-2,000
Net Income	\$ 3,000

- All items reported on Schedule C, net income is \$3,000.
 - \$20,000 reported on Form 1040. No deductions allowed. Net effect on income is \$20,000.
 - The net income of \$3,000 is reported on Form 1040 as “other income”.
 - \$20,000 is reported on Form 1040. The \$15,000 of losing wagers is reported on Schedule A as Other Miscellaneous Deductions-not subject to 2% limitation. Net effect is \$5,000 of income, assuming the \$15,000 of losses is fully deductible.
 - \$20,000 is reported on Form 1040. The \$15,000 and \$2,000 are combined and deducted on Schedule A – Miscellaneous Itemized Deductions-subject to the 2% limitation.
25. Taxpayer is a professional gambler. Determine the proper reporting of their gambling activities for 2018 under the following facts:

Gross Winnings	\$20,000
Losing wagers	-15,000
Travel expenses	-4,000
Legal and professional	-2,000
Subscriptions	<u>-2,000</u>
Total Non wager expenses	<u>-8,000</u>
Net loss	\$ 3,000

- All items are reported on Schedule C resulting in a net deductible loss of \$3,000.
- Non-wagering expenses are not deductible, so income and losses are reported on Schedule C resulting in net income of \$5,000.
- Gambling income of \$20,000 is reported on Form 1040. The total of all expenses (\$23,000) is limited by amended Sec. 165(d) and so \$20,000 of allowed expenses is reported on Schedule A– Miscellaneous Itemized Deductions-not subject to the 2% limitation.
- All amounts are reported on Schedule C but the \$3,000 loss cannot be deducted. It is carried forward to be deducted against future gambling earnings.
- The gambling income, losing wages and related expenses are reported on Schedule C. However, the expenses are reduced by \$3,000 due to the amended Section 165(d) limitation reducing the loss to \$0.

Sections V–VII and Exam Questions 26- 40 Relate to the *Journal of Accountancy* of November 2018.

Section V. Overcoming Obstacles to Engagement Letter Use (Page 14)

26. Other than satisfying professional standards requirements, reasons to use an engagement letter include:
- They will prevent the client from filing a claim.
 - They can help reduce claim severity.
 - They can help provide a more efficient resolution of client disagreements.
 - a and b.
 - b and c.

27. When drafting an engagement letter for the preparation of an income tax return, consider including language that:
 - a. The CPA disclaims responsibility for accuracy of the tax return.
 - b. The CPA disclaims responsibility for completeness of the tax return.
 - c. The CPA disclaims responsibility for identifying or offering advice on other potential non-income tax matters (such as sales tax) or internal control weaknesses.
 - d. a and b.
 - e. b and c.
28. One effective way to reduce time spent on engagement letters is to:
 - a. Have the client draft the letter.
 - b. Use non-template letters.
 - c. Communicate verbally.
 - d. Use of unilateral engagement letters.
 - e. Just copy and update last year's letter.
29. An example of a unilateral engagement letter would be:
 - a. A letter that states that the client agrees to the terms by returning the organizer or other tax information to the CPA firm.
 - b. An email from the CPA that states the services to be performed.
 - c. An engagement letter sent by certified mail.
 - d. Use of an AICPA template letter.
 - e. An engagement letter that the client must sign, date and return.
30. Unilateral engagement letters can be appropriate for:
 - a. Compilation engagements.
 - b. Agreed-upon procedures.
 - c. Tax preparation only.
 - d. Low risk engagements, such as simple, individual income tax returns.
 - e. Any consulting engagement.

Section VI. Why Cyberdefenses are Worth the Cost (Page 34)

31. System backups should be tested periodically by performing a system restore. For critical applications, it is best to:
 - a. Run a virus scan after the restore.
 - b. Delete anti-virus patches.
 - c. Use phishing software to test the data.
 - d. Have users test the applications for data integrity after the restore .
 - e. Install malware after the restore.
32. A ransomware attack typically uses malware to:
 - a. Erase your files to disrupt operations.
 - b. Steal sensitive information to sell.
 - c. Encrypt your files, demanding payment to unencrypt.
 - d. Use your email address book to send spam mail.
 - e. Redirect your web site traffic to a "ghost" site.
33. A strategy to employ controls to prevent certain networks from accessing other networks is known as:
 - a. Network drive partition.
 - b. System backup and restore.
 - c. Network lateral movement.
 - d. Phishing for credentials.
 - e. Network segmentation.
34. Network segmentation is one strategy that can help prevent:
 - a. Wire transfer and ACH fraud.
 - b. System backup failure.
 - c. Lateral movement.
 - d. Phishing attacks.
 - e. Anti-virus patches.

35. A phishing attack attempts to steal a user's login and password often by sending an email to direct the user to:
- Login to a fake web page.
 - Login to the firewall.
 - Login to the virus software.
 - Create a backup file.
 - Search for recent security patches.

Section VII. Understanding the New Kiddie Tax (Page 48)

36. While the Tax Cuts and Jobs Act (TCJA) eliminated some complexity in the kiddie tax, which convenience was lost?
- The option of reporting the children's dividends and interest on the parent's Schedule B.
 - The option of contributing to the child's IRA to offset income.
 - The parents could elect to pay tax on the child's entire income at a rate of 15%.
 - The parents could elect to report the child's unearned income on their income tax return using Form 8814.
 - The parents could elect to report the child's gross income on their income tax return using Form 8814.
37. A child with earned income of \$5,000 can claim a standard deduction in 2018 of:
- \$1,050
 - \$5,350
 - \$6,000
 - \$6,350
 - \$12,000
38. Determine a dependent child's taxable income for 2018 under the following facts, assuming the child cannot itemize:

Wages	\$6,000
Interest Income	\$5,000
Qualified Dividends	\$7,000
Total Income	\$18,000

- \$16,950
 - \$6,000
 - \$15,900
 - \$11,650
 - \$12,650
39. Using the same facts as above, determine the child's Net Unearned Income (NUI):
- \$9,900
 - \$10,950
 - \$6,650
 - \$12,000
 - \$11,650
40. Using the same facts as above, how much of the taxable income will be taxed at ordinary income tax rates:
- \$9,900
 - \$11,650
 - \$5,000
 - \$4,650
 - \$11,000

Section VIII - IX and Exam Questions 41 - 50 Relate to the *Journal of Accountancy* of Dec. 2018.

Section VIII. New Tax Credit for Paid Family and Medical Leave (Page 20)

41. Regarding the Section 45S tax credit employers exempt from the Family Medical Leave Act of 1993 (FMLA):
- Are not eligible for the Sec. 45S credit.
 - Are eligible but must meet certain requirements.
 - Must pay employees on leave 100% of their salary to be eligible.
 - Must have at least 50 employees.
 - Must begin compliance with the FMLA as well.
42. Assume an employer pays 80% of an employee's salary while on family and medical leave. Calculate the percentage of leave wages the employer would claim as a credit.
- 12.5%.
 - 15%.
 - 17.5%.
 - 20%.
 - 25%.

43. If the employer claims the 45S credit on the business tax return:
- The credit is limited to the number of hours of leave taken.
 - The credit cannot exceed the amount of FICA taxes paid on the employee's paid leave.
 - The credit cannot exceed 5% of wages deducted on the income tax return.
 - The amount of deduction for wages must be reduced by the credit.
 - The credit cannot exceed 12.5% of the income tax liability.
44. In 2018, an employer could not claim a credit for leave paid to an employee whose salary was:
- a. \$70,000 b. \$72,000 c. \$73,000 d. \$60,000 e. \$65,000
45. Which of the following examples would not qualify for the Sec. 45S credit?
- The birth and care of a newborn child of an employee.
 - To care for the employee's spouse, child, parent or sibling who has a serious health condition.
 - Placement of a child with the employee for adoption or foster care.
 - The employee's inability to perform their job due to a serious health condition.
 - To care for a covered service member who is the spouse, child, parent or next of kin of the qualifying employee.

Section IX. The Pros and Cons of LLCs (Page 52)

46. LLC members, in their capacity as members, are liable for:
- All obligations of the LLC.
 - Only for obligations of the LLC contracted for by the member.
 - Their own torts.
 - Torts of all members.
 - Torts of other member who are also managers.
47. Unlike partnerships and corporations, in most states LLCs
- Articles of organization are not required.
 - Do not file an income tax return.
 - Must have a business purpose.
 - May be formed for any lawful purpose, even non-business.
 - Can be a "Series LLC".
48. One difference between LLCs and LLPs is:
- LLP partners are responsible for all liabilities of the entity while LLC members are not.
 - Usually the liability protection in an LLC is much greater than an LLP.
 - For Federal employment law purposes, LLP partners are not considered employees while the status of LLC members is not well-defined.
 - For Federal employment law purposes, LLC members are not considered employees while LLP partners are.
 - LLP partners cannot be subject to a mandatory retirement age set by the entity.
49. The creditor of an LLC member typically has the right to:
- Assume the member's ownership right interest in the LLC.
 - Force payment from the LLC.
 - File a lien against the LLC assets.
 - A "charging order" which requires the LLC to pay the creditor any distributions due to the member.
 - Force payment from the other LLC members.
50. Under the Revised Uniform Limited Liability Company Act (RULLCA) a member may bind the LLC if they have:
- "Actual authority", ie: the member is authorized by the LLC.
 - "General authority", ie: authority all member have.
 - Acted with "apparent authority" independent of the LLC form, e.g.: some communication by the LLC to the third party.
 - a and b.
 - a and c.

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

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