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**QUARTERLY CPE EXAM ON THE *Journal of Accountancy***  
**First Quarter (January - March), 2019 (Course # 1901)**  
A Formal CPE Course using the *JoA* as Reference Material  
**Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)**  
Subject division: Attest 1; Tax 5; Mgt. 3; 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](http://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: \_\_\_\_\_

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To which state boards or agencies do you report CPE? \_\_\_\_\_

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Date completed: \_\_\_\_\_

We encourage you to scan and email your answer sheet to [info@accounting-education.com](mailto:info@accounting-education.com)

**For CPE credit, this exam must be completed by 3/31/2021.**

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“Knowledge is knowing that a tomato is a fruit,  
wisdom is not putting it in a fruit salad.”  
...Miles Kington – British writer, humorist and musician

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](http://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](http://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:

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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:

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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

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I am submitting \_\_\_\_\_ completed Exam(s) on the *JofA* that I've downloaded from [www.accounting-education.com](http://www.accounting-education.com)

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_____	Third Quarter (July - September), 20____
_____	Fourth Quarter (October - December), 20____

_____	First Quarter (January - March), 20____
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_____	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

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***Optional:*** Please estimate your course completion time. \_\_\_\_\_

***Thank you for your business and referrals.***

**Sections I–III and Exam Questions 1–15 Relate to the *Journal of Accountancy* of January 2019.**

**Section I. Tackling TCJA Changes This Tax Season (Page 16)**

1. The Tax Cuts and Jobs Act of 2017 (TCJA) increased the standard deduction for joint filers under 65 by:
  - a. \$6,350.
  - b. \$10,000.
  - c. \$11,300.
  - d. \$12,000.
  - e. \$24,000.
  
2. A family of four that itemizes in 2018 can deduct \_\_\_\_\_ of their \$15,000 moving expenses?
  - a. \$7,500.
  - b. The amount that exceeds 2% of miscellaneous itemized deductions.
  - c. \$10,000.
  - d. \$15,000.
  - e. None. The moving expense deduction was eliminated, except for certain members of the armed forces.
  
3. In 2018, an unmarried single filer paid property taxes of \$3,500 and state income tax of \$10,000. If itemizing, what is the net deduction for these two items?
  - a. \$5,000.
  - b. \$6,350.
  - c. \$10,000.
  - d. \$12,450.
  - e. \$13,500.
  
4. In 2017, A & B filed jointly and received a child credit of \$1,000 for each of their two children. They are worried about losing some or all of the credit in 2018. Although the children still qualify, A received a 20% raise at work. What can you tell A & B?
  - a. No worries! They should get the same \$2,000 credit for 2018.
  - b. Consolation: They will qualify for the new \$500 credit.
  - c. Although they lose the credit, they will make up for it with the new higher standard deduction.
  - d. Sorry. Their increased income will cause the credit to phaseout completely.
  - e. Good news! The credit doubles from \$1,000 to \$2,000 and the income phaseout for joint filers nearly quadrupled.
  
5. In 2017 a joint filer with two qualifying children ages 14 and 16 received a total child credit of \$2,000. How much child credit will the joint filer receive for 2018 assuming the children still qualify and there is no phase-out due to income?
  - a. \$1,000.
  - b. \$1,500.
  - c. \$2,000.
  - d. \$2,500.
  - e. \$4,000.

**Section II. 12 Common Technology Mistakes You Should Avoid (Page 22)**

6. The author recommends that a company set up an email encryption system:
  - a. To protect against viruses.
  - b. To prevent download of malware.
  - c. In older computers because they are more susceptible to viruses.
  - d. Only if the company uses social media.
  - e. Because without it, all email messages are vulnerable and could be intercepted.

7. The author recommends replacing computers:
  - a. Every three years.
  - b. Within 12 months of each new Windows operating system release.
  - c. When the computer takes more than five seconds to boot up.
  - d. a and b.
  - e. a, b and c.
8. Some good indicators that an employee isn't getting the most productivity from certain software would include never having used features such as:
  - a. Pivot tables, mapping or the subtotal command in Excel.
  - b. Tables, columns or mail merge in Word.
  - c. Default signatures, junk mail blocking in Outlook.
  - d. a and b.
  - e. a, b and c.
9. To ensure employees use the full capability of the accounting system, the author recommends:
  - a. Cloud computing.
  - b. Use of smart phone technology.
  - c. Have one person become knowledgeable and regularly share with system users.
  - d. Send a different employee to training every three years.
  - e. Have two employees become proficient.
10. Benefits of cloud computing include:
  - a. Eliminates power outages.
  - b. Data is more accessible to employees, customers and authorized users.
  - c. Servers never crash.
  - d. a and b.
  - e. b and c.

### **Section III. Relief for Small Business Tax Accounting Methods (Page 48)**

11. Signs that a business might realize tax savings by using the cash method of accounting include:
  - a. Sales exceed expenses.
  - b. Accounts receivable exceeds accounts payable and accrued expenses.
  - c. Accounts payable exceeds accounts receivable.
  - d. The business has no inventory.
  - e. The business accepts no credit cards.
12. Businesses satisfying the \$25 million gross receipts test may elect out of the Section 471 rules requiring accounting for inventory and in its place:
  - a. Treat inventory as nonincidental materials and supplies.
  - b. Simplify inventory method by recording cost of sales using a rolling three year average.
  - c. Use the inventory method reflected in its Applicable Financial Statement (AFS) or its books and records if there is no AFS.
  - d. a and c.
  - e. none of the above.
13. A business applying to change the accounting method discussed (except for long-term contracts under the percentage of completion method) must calculate a Section 481(a) adjustment, which is:
  - a. The difference between gross income for all prior tax years as calculated under the original and proposed accounting methods.
  - b. The difference between taxable income for all prior tax years as calculated under the original and proposed accounting methods.
  - c. The difference between the cumulative Federal tax liability for all prior tax years as calculated under the original and proposed accounting methods using actual tax rates for each year.
  - d. The difference between taxable income for all prior tax years as calculated under the original and proposed accounting methods times the effective tax rate in the year before the change.
  - e. The difference between taxable income for the immediate three prior years under the original and proposed accounting methods.

14. The Section 481(a) adjustment is:
  - a. Included in taxable income in the year of the change, if negative.
  - b. Included in taxable income in the year of the change, if positive.
  - c. Included in taxable income over four years, if positive.
  - d. a and b.
  - e. a and c.
  
15. The Form 3115 “Application for Change in Accounting Method”:
  - a. Must be filed only if seeking “advance consent” from the IRS.
  - b. Will be deemed granted if filed under “advance consent” procedures, attached to a timely filed federal tax return and filed directly with the IRS in Covington, KY.
  - c. Will be deemed granted if filed under “automatic procedures”, attached to a timely filed Federal tax return and filed in duplicate with the IRS in Covington, KY.
  - d. Must be filed with a user fee of \$9,500 for both “automatic” and “advance consent” procedures.
  - e. Can only be filed with an amended federal tax return.

**Sections IV–VIII and Exam Questions 16–40 Relate to the *Journal of Accountancy* of Feb. 2019.**

**Section IV. Addressing Risks Related to the TCJA and *Wayfair* (Page 16)**

16. What is one example the author provides of when a client may file a claim for “failure to advise” related to the TCJA?
  - a. The CPA did not advise a client the exemption deduction was eliminated.
  - b. The CPA did not advise a client their moving expenses are not deductible.
  - c. The CPA did not advise a business client their payroll taxes will be due on the “semi-weekly” schedule.
  - d. The CPA did not advise a client to review activities to maximize their Section 199A deduction.
  - e. The CPA did not advise a client to get a second opinion for a questionable tax position.
  
17. What should be specifically addressed in an engagement letter to help defend against TCJA-based claims?
  - a. That the CPA has attended relevant CPE courses.
  - b. That the firm's services are limited to tax compliance and responsibility to provide tax advice is limited.
  - c. The firm relies on their tax preparation software for tax return accuracy.
  - d. a and b.
  - e. a and c.
  
18. Assuming all transactions are with residents in South Dakota, under *Wayfair*, which of the following are obligated to collect and remit sales tax to South Dakota?
  - a. Sales of \$90,000 and 200 transactions.
  - b. Sales of \$100,000 and 90 transactions.
  - c. Sales of \$100,000 and 199 transactions.
  - d. a and b.
  - e. a, b and c.
  
19. Your North Dakota business provides mobile on-site truck repair and maintenance services. Occasionally, services are provided in South Dakota. Should you collect and remit South Dakota sales tax?
  - a. No. Sales tax is only due on sales of tangible products, not services.
  - b. No. You are based in North Dakota, no sales tax is due in South Dakota
  - c. Possibly. South Dakota taxes some services. You will need to check the rules.
  - d. Both a and b are true.
  - e. No, *Wayfair* applies only to businesses based in South Dakota.
  
20. Regarding the TCJA and *Wayfair*, CPAs working in the areas of accounting and attest should:
  - a. Consider how these changes could affect the disclosure requirements for income taxes and contingent liabilities.
  - b. Disregard *Wayfair*, unless your clients are in South Dakota.
  - c. Disregard *Wayfair*, it is unlikely the amount of unpaid sales tax would be material.
  - d. Disregard the TCJA as it only affects income tax for 2018, so financial disclosure is unaffected.
  - e. c and d.

**Section V. Sec. 199A: Prop. Regs. Shed Light on QBI Deduction (Page 18)**

21. Under the Section 199A rules, which of the following may be eligible to deduct 20% of trade or business income:
- A shareholder in an S corporation.
  - A shareholder in a C corporation.
  - A member of an LLC that files as a partnership.
  - A sole proprietor.
  - a, c and d.

22. Calculate the Section 199A deduction using the following information from a joint tax return:

W-2 Wages	\$40,000
Qualified Business Income	\$60,000
Capital Gains	\$40,000
Taxable Income	\$100,000

- \$8,000.
  - \$12,000.
  - \$14,000.
  - \$22,000.
  - \$28,000.
23. A taxpayer owns an interest in a business that will pass-through qualified business income. Using the data provided, calculate the deduction the taxpayer will have available before applying any limits arising from the personal tax return.

Qualified business income	\$200,000
Wages paid	\$60,000
Unadjusted basis of qualified property	\$500,000

- \$15,000.
  - \$27,500.
  - \$30,000.
  - \$40,000.
  - None of the above.
24. If the trade or business income is from a Specified Service Trade or Business (SSTB), the 20% deduction could be phased out. At what amount of 2019 taxable income would a married filing jointly taxpayer lose the deduction entirely?
- \$160,700.
  - \$160,725.
  - \$210,725.
  - \$321,400.
  - \$421,400.
25. SSTBs include “any trade or business that relies on the reputation or skill” of one or more of its employees. Many small businesses could satisfy that definition and be deemed an SSTB. The proposed regulations provided relief by:
- Providing a *de minimis* rule for businesses with gross receipts under \$25 million.
  - Excluding employees who have no ownership interest.
  - Clarifying that this applies to businesses receiving income from endorsements, appearance fees or licensing fees for the use of the person's likeness, voice, etc.
  - Clarifying that it applies only to professional athletes and performers.
  - Retracting the clause entirely from the definition of SSTBs.

## Section VI. What's Your Fraud IQ? (Page 24)

26. Which of the following is an example of bid rigging?
  - a. A contractor submits multiple invoices for the same work.
  - b. A contractor withdraws a low bid at the last minute and later performs work for the winning bidder as a subcontractor.
  - c. A contractor forms a shell company to submit invoices.
  - d. A contractor's bid is equal to the customer's budget.
  - e. A contractor's invoice lacks detail.
27. Which of the following is not an example of an invoicing scheme?
  - a. Submitting a completely fictitious invoice.
  - b. Submitting a legitimate invoice, then submitting the same invoice a week later.
  - c. Submitting an invoice using higher prices than the contract.
  - d. Submitting a change order request.
  - e. Submitting an invoice using contracted prices but the quantities are inflated.
28. Some signs that an employee is leaking confidential bid information can include:
  - a. The winning bid is just below the next lowest bid.
  - b. The procuring entity receives multiple invoices for the same work.
  - c. The last entity to bid wins the contract.
  - d. All of the above.
  - e. a and c.
29. To detect bid splitting, management should look for:
  - a. Purchases of identical items in different amounts at the same time or within short periods.
  - b. Patterns of purchases just below threshold levels requiring review.
  - c. Contracts containing various types of work.
  - d. a and b.
  - e. a, b and c.
30. The fraud committed through a shell company can be similar to what type of scheme already discussed?
  - a. Bid-rigging scheme.
  - b. Invoicing scheme.
  - c. Dishonest employee leaking confidential information.
  - d. Bid-splitting.
  - e. None of the above.

## Section VII. Simplifying Adoption of NFP Financial Reporting Standard (Page 28)

31. Under ASU 2016-14, what two previous classifications were combined?
  - a. Unrestricted and temporarily restricted.
  - b. Unrestricted and permanently restricted.
  - c. Temporarily unrestricted and permanently unrestricted.
  - d. Temporarily restricted and permanently restricted.
  - e. Board restricted and donor restricted.
32. As a result of the requirement to disclose liquidity information, the author recommends the not-for-profit consider:
  - a. How donor or board imposed limits on resources affect the availability for general expenditures.
  - b. Analyzing current cash position and developing a cash management strategy.
  - c. If cash projections are negative, suspend all fundraising activity until a positive projection is restored.
  - d. a, b and c.
  - e. a and b.



33. The article includes a sample statement of functional expenses. What does ASU-2016-14 require in addition to listing expenses by their natural classification?
  - a. Investment expenses must be allocated solely to fundraising.
  - b. Compensation must include post-retirement prior year service costs.
  - c. The method used to allocate expenses between functional categories must be disclosed.
  - d. Expense allocations must be calculated using the “relative square footage” method detailed in ASU-2016-14.
  - e. Investment returns must be included.
34. ASU-2016-14 changed reporting for endowment funds in what way?
  - a. Underwater amounts are no longer disaggregated and separately classified.
  - b. Spending from endowment funds must cease until the balance is restored to the original gift level.
  - c. Enhanced disclosures are required, including the original gift amount and policies regarding underwater endowments.
  - d. All of the above.
  - e. a and c.
35. Which of the following is true regarding board-designated net assets?
  - a. They can be disclosed on the face of the statements or in the footnotes.
  - b. No disclosure is necessary because there are no donor restrictions.
  - c. Because the assets are restricted, they are included with the donor-restricted net assets.
  - d. Boards should be very careful when designating net assets because the designation can't be removed.
  - e. ASU-2016-14 did not affect board-designated fixed assets.

#### **Section VIII. Cryptocurrency Gift Strategies for Not-for-Profits (Page 34)**

36. What are some of the best known cryptocurrencies?
  - a. Bite coin.
  - b. Litecoin.
  - c. Bitcoin.
  - d. b and c.
  - e. a, b and c.
37. In order to receive a donation of cryptocurrency directly, an organization will need:
  - a. A digital US-based bank account.
  - b. To open a bank account with a minimum of \$100 in cryptocurrency.
  - c. A “digital wallet.”
  - d. A “crypto-purse.”
  - e. To purchase “crypto-keys.”
38. If using a traditional digital wallet, to protect your cryptocurrency (and private keys), the author recommends:
  - a. Daily backups in case of power loss.
  - b. “Cold storage,” which takes private keys offline.
  - c. “Coinbase,” a wallet that acts like a brokerage account.
  - d. Accepting Bitcoin only, as it is a well known cryptocurrency.
  - e. Freezing accounts with cryptocurrency activity.
39. In addition to maintaining small balances and using multiple wallets, what cryptocurrency security measure does the author deem “crucial”?
  - a. Daily systems backups.
  - b. Use of a facilitating organization.
  - c. Accept only one type of cryptocurrency to limit risk.
  - d. Maintain security awareness training regarding blockchain networks, wallets and related notifications and verification requests.
  - e. Use only one wallet.

40. What is the not-for-profit's (NFP) responsibility regarding the valuation of cryptocurrency gifts?
- The NFP must provide the donor a receipt or acknowledgment letter along with a value of the donations.
  - If the donation value exceeds \$5,000, the NFP must obtain an appraisal.
  - The NFP reports the gift value on Form 8283.
  - The NFP values the gift at the net proceeds from the sale.
  - The NFP values the gift at the time of contribution.

**Section IX - X and Exam Questions 41 - 50 Relate to the *Journal of Accountancy* of March 2019.**

**Section IX. Maximizing the the Higher Education Credits. (Page 16)**

41. In order to apply scholarship or grant funds to nonqualified education expenses in a strategy to maximize the education credits, the scholarship or grant must:
- Qualify as tax free under Sec. 117(b)(1).
  - Be paid directly to the school and applied to the student account.
  - Allow the award to be applied to nonqualified expenses, such as room and board.
  - a and b.
  - a and c.
42. To be eligible for the lifetime learning credit, fees for books, supplies and equipment:
- Must be paid to the educational institution and not to a third party supplier.
  - Can be paid to the educational institution or a third party supplier.
  - Must be paid by the dependent student, not the parents.
  - Are capped at \$500 per academic year for purposes of the credit.
  - Are combined with tuition and capped at \$2,000 for purposes of the credit.
43. When calculating the maximum Federal tax savings achievable by including scholarship or grant awards in income, remember to consider the effect on:
- Refundable child tax credit.
  - Refundable education credit..
  - Dependent care credit.
  - State income taxes.
  - Earned income credit.
44. Under Proposed Reg. Sec 1.117-6(h) taxable scholarships and grants are treated as earned income. What change by the Tax Cuts and Jobs Act (TCJA) benefits students choosing to include scholarships and grants in income?
- The TCJA doubled the education credit.
  - The TCJA made all credits refundable.
  - The TCJA increased the standard deduction to \$12,000, which is used to offset earned income.
  - The TCJA allows the parent or student to claim education credits by an annual election.
  - The TCJA allows the student to claim the credit while allowing the parent to claim the student as a dependent.
45. Students can claim education credits if they provide more than one half of their own support. What sources of funds are considered support provided by the student?
- W-2 wages.
  - Student loans.
  - Taxable scholarships or grants.
  - a and b.
  - a, b and c.

**Section X. Effective Financial Projections for a Startup. (Page 38)**

46. What key estimate will influence the rest of profit and loss assumptions?
- Payroll costs.
  - Borrowing interest rates.
  - Revenue.
  - Capital expenditures.
  - Projected inflation rates.

47. Once the critical inputs for revenue are determined, how is projected revenue calculated ?
- Revenue driver assumption times price for each revenue lever.
  - Revenue levers times price divided by revenue drivers assumptions.
  - Revenue levers times price.
  - Revenue drivers times price.
  - Revenue levers times price for each revenue driver assumption.
48. Revenue projections should include an estimate for “churn,” which is:
- Revenue for recurring business, such as renewal of an annual maintenance contract.
  - Migration of revenue within the same business, such as a PC-based customer moving to cloud-based services.
  - The rate of a customer's return business, such as once a month, quarter or year.
  - The business that will be lost over the projected period.
  - The estimated amount of “upselling,” that is, selling additional goods or services to an existing customer order.
49. When estimating cash flow using EBITDA less capital investment, what other items should be considered to refine the estimate?
- Customer churn rate.
  - Borrowing rates.
  - The cash cycle as it relates to receivables, payables and inventory.
  - The depreciable life of capital spending.
  - Payback period of investments.
50. The author recommends presentation of a condensed profit and loss statement, but recommends detail for what item?
- Salaries - detail by function.
  - Cost of sales – separate by revenue lever, if possible.
  - Salary assumptions should show on the P&L.
  - SG & A expenses should be listed in detail.
  - Revenue assumptions should show on the P&L.

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*Please email, fax or mail your answer sheet to AEA. Our email address: [info@accounting-education.com](mailto:info@accounting-education.com)*

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