Accounting Education Associates, LLC
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
First Quarter (January - March), 2020 (Course # 2001)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Fin Plan 2, IT 1, Tax 7 (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 by deadline below.
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? ___________________

Sponsor Agreements with State Boards of Accountancy:
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Please leave this space blank for your Certificate of Completion.

We encourage you to scan and email your answer sheet to info@accounting-education.com
****For CPE credit, this exam <u>must</u> be submitted to AEA by 7/22/2022.****

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Date completed: ___________________

“Alexander Hamilton started the U.S. Treasury with nothing, and that was the closest our country has ever been to being even”
...Will Rogers, American humorist

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 the convenience of your home or office. 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 since 1982. Courses were prepared by either:
James H. Ogburn, MBA, CPA, founder of AEA. Jim's experience includes public accounting, finance and 18 years as Director of Graduate Programs in Accounting and Business at the University of North Carolina at Greensboro and 36 years developing AEA courses.
Keith A. Pearson, CPA. Keith's experience includes “Big 4” public accounting, industry as a CFO and controller and managing a CPA firm serving closely-held businesses and individuals.

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IMPORTANT !!! - To receive credit, each exam MUST BE SUBMITTED on or before the expiration date noted at the bottom of the exam.

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.

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The price of a **Quarterly CPE Exam** is $49, with lower prices when an order involves four or more courses:

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Price per course for orders of 8 to 23 courses:	$43
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Firm (If part of address) __________________________
Address_______________________________________
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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.)

______ By using the secure PayPal link on our Web site to pay with favorite credit card (Visa, MasterCard, Amex or Discover)

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Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.

The learning objectives of this course are in the Study Guide at www.accounting-education.com.

Sections I–III and Exam Questions 1–20 Relate to the *Journal of Accountancy* of January, 2020.

Section I. 2020 Tax Filing Season Preview (Page 16)

1. One ongoing issue of uncertainty related to the Tax Cuts and Jobs Act (TCJA) is:
   a. Whether a dependent can claim an exemption.
   b. Whether and how states have conformed their tax laws to the TCJA
   c. The carryover deduction of excess state and local taxes.
   d. Whether to claim itemized or standard deductions.
   e. Whether a married couple should file jointly or separately.

2. In addition to limiting the individual deduction for state and local taxes, the TCJA eliminated entirely the deduction for:
   a. Mortgage interest on a second home.
   b. Student loan interest.
   c. Property taxes on "luxury" vehicles.
   d. Property taxes on second homes.
   e. Foreign real property taxes.

3. Form 8867, *Paid Preparer's Due Diligence Checklist* requires certain due diligence measures as to various credits primarily related to filers and their dependents (eg: child credit). The TCJA added ___________ to the list:
   a. Foreign tax credit.
   b. Dependent care credit.
   c. Married filing separately status.
   d. Head of household status.
   e. Surviving spouse status.

4. The TCJA eliminated the deduction for miscellaneous itemized deductions (subject to the 2% of adjusted gross income thresholds). Which of the following is not included in that category and is still deductible?
   a. Investment expenses (eg: management fees).
   b. Unreimbursed employee travel expenses.
   c. Investment interest (limited to net investment income).
   d. Tax preparation fees.
   e. Unreimbursed employee expenditures for tools and supplies.

5. To help work through the qualified business income deduction (QBI) as it relates to rental real estate, the IRS:
   a. Ruled all rental real estate would qualify for the QBI deduction.
   b. Ruled that rental real estate is not a trade or business activity and so is not eligible for the QBI deduction.
   c. Ruled the taxpayer must be engaged full-time as a "real-estate professional" in order to be eligible for the QBI deduction.
   d. Offered a safe-harbor in Rev. Proc. 2019-38.
   e. None of the above. The IRS has not issued any clarification for rental real estate.

Section II. How to Guard Client Finances Against Dementia (Page 34)

6. Why would a CPA/financial planner ask middle-aged clients about their parents' health and financial situation? (The parents are not clients and in fact engage another financial planner.)
   a. To advise on how the parents might devise a will to best benefit the clients.
   b. To explain income tax deductions available to the elderly.
   c. To help determine whether the client may need to plan on paying for some of the parent's expenses.
   d. To explain how the parents could use trust and gifting techniques to transfer wealth.
   e. Client prospecting.

7. When meeting with older clients, what does one CPA do to detect signs of dementia:
    a. Notes how they interact..
    b. Looks for changes in demeanor.
    c. Notes how they recall details.
    d. Observes whether they seem to have had any change in their abilities to manage their affairs.
    e. All of the above.

8. An older client calls to say his son has offered a chance to invest in a business venture. What is your response?
    a. "Never do business with family."
    b. "Always trust family."
    c. Offer to review details and give an evaluation (or refer to an expert).
    d. Decline to offer advice due to liability issues.
    e. Ask if the son needs a CPA.

9. To facilitate working with other professionals serving older clients, one CPA recommended having the client:
    a. Authorize the CPA as a signatory on client bank accounts.
    b. Grant the CPA financial power of attorney.
    c. Name the CPA as executor of the client's estate.
    d. Give the CPA login information for the client's bank and brokerage accounts.
    e. Grant the CPA permission to interact with other professionals.

10. Warning signs of potential exploitation include:
    a. Erratic spending patterns or other behaviors.
    b. Missing money or possessions.
    c. Separation or divorce.
    d. a and b.
    e. a, b and c.

Section III. Writing to Win Tax Appeals (Page 42)

11. A Revenue Agent Report (RAR) :
    a. Is a type of collection notice.
    b. Summarizes audit findings, including details of any proposed assessment (adjustment to tax liability).
    c. Summarizes audit findings only. Any proposed assessment is stated in the appeals letter.
    d. Is a letter from the revenue agent requesting certain documents.
    e. Acknowledges receipt of documents requested from the taxpayer.

12. If the taxpayer disagrees with the proposed assessment in the RAR, the options available are:
    a. Challenge the proposed assessment in tax court.
    b. Pay the proposed assessment and file a refund request with the IRS.
    c. File an appeal with the IRS Office of Appeals.
    d. a, b and c are <u>all</u> available.
    e. a and b, but not c (appeals are a "last resort").

13. A taxpayer chooses to appeal an assessment and does not get the desired result. Is there any recourse?
    a. No, all appeals decisions are final.
    b. Yes, the taxpayer can request a "Director's Review," which is performed by the staff of the district director.
    c. Yes, the taxpayer may pursue a court action.
    d. Yes, the taxpayer may pay the tax and file a refund request with the IRS.
    e. Yes, the taxpayer must wait 30 days and then can file a second appeals request.

14. Generally, the taxpayer must file an appeal within ________ of the date of the Revenue Agent Report.
    a. 30 days.
    b. 60 days.
    c. 90 days.
    d. 120 days.
    e. 3 years (normal statute of limitations).

15. Once the Appeals officer reviews the arguments in the taxpayer's written appeal as well as the revenue agent's arguments, the Appeals officer:
    a. Issues a ruling.
    b. Consults with the revenue agent's group manager <u>and</u> the district director.
    c. Provides recommendations to the revenue agent, who then can reconsider aspects of the audit and revise certain findings as needed.
    d. Has 30 days to issue a ruling.
    e. Will hold an Appeals conference or hearing with the taxpayer.

16. The Appeals process is not part of the exam, therefore:
    a. New issues cannot be raised.
    b. The Appeals officer focuses only on items in the RAR that are in dispute.
    c. The Appeals officer can request additional documentation or introduce alternative legal arguments.
    d. a, b and c.
    e. a and b only.

17. Hazards of litigation can include uncertainties of <u>fact</u>. These can include:
    a. Missing or incomplete documentation.
    b. Facts from different sources conflict.
    c. Conflicting appellate court opinions.
    d. a, b and c.
    e. a and b only.

18. Legal hazards of litigation can include:
    a. Guidance from case law is mixed or appellate court rulings are split.
    b. Cost to the IRS to litigate.
    c. Facts from different sources conflict.
    d. Key terms in the law are well-defined and do not rely upon facts and circumstances.
    e. Backlog of tax court cases.

19. Taxpayers may agree with the RAR on some issues and disagree on others. In this case the authors recommend taking the entire case to Appeals because:
    a. There will be <u>one</u> final determination for the tax year, rather than two.
    b. The tax bill for the agree-upon issues will be delayed until the conclusion of the appeals process.
    c. Their is a chance the Appeals officer with dismiss <u>all</u> the issues rather than just the disputed issues.
    d. a and b.
    e. a, b and c.

20. The authors recommend a logical flow for a tax argument: First cite the relevant portion of _______, followed by supporting authority from Treasury and the IRS and finally, analysis of case law.
    a. IRS Publications.
    b. The Internal Revenue Code.
    c. IRS forms and instructions.
    d. Treasury regulations.
    e. IRS private letter rulings.

Sections IV–V and Exam Questions 21–35 Relate to the *Journal of Accountancy* of Feb., 2020.

Section IV. What's Your Fraud IQ? (Page 36)

21. Forms of "multifactor authentication" login security include:
    a. A token or fob that generates a code to be entered.
    b. Entry of a login name and a password.
    c. A single-use code the user receives by text message and then enters.
    d. a and c.
    e. a, b and c.

22. An email from a fraudster posing as a company executive requesting information or transfer of funds is sometimes referred to as:
    a. Money laundering.
    b. "CEO Fraud."
    c. Impersonating an officer.
    d. Malware.
    e. Mail fraud.

23. Which of the following is a clue that an email from the CEO requesting a funds transfer could be a scam?
    a. The email address is a character or two different from the CEO's.
    b. The email addresses the employee by the nickname "Tom" instead of Thomas.
    c. The email provides specific details as to vendor and amounts which the employee can verify.
    d. The recipient account is the same as prior transfers.
    e. The subject line is specific.

24. Allowing employees to access personal social media accounts using company devices:
    a. Could benefit the company by raising its profile among the employee's "followers."
    b. Could benefit the company by increasing efficiency as the employee will not have to switch devices.
    c. Poses no additional security risk because the social media sites are secure.
    d. Allows, by law, the company to demand access to the employee's login credentials.
    e. Could expose the company to increased risk of cyberfraud, such as "phishing," ransomware or other malware.

25. Regarding an employee's personal social media account, which of the following is true?
    a. Employers cannot punish an employee for posting confidential information to a personal account, as that would violate a right to privacy.
    b. During the term of employment, an employer may approve, edit or even delete any information posted on the employee's personal social media.
    c. Employers can only suggest rules for social media disclosure, but cannot punish or terminate employment.
    d. Fraudsters search social media to aid in schemes, so employers should have policies against posting specified information to social media and penalties for any violation.
    e. The company should not try to limit access to the company's social media to a select few employees.

Section V. Start or Review an Accountable Plan (Page 52)

26. Expense reimbursements to an employee made under an accountable plan:
    a. Must be included in the employee's Form W2.
    b. Are excluded from the employee's Form W2.
    c. Are deductible by the employer.
    d. a and c.
    e. b and c.

27. What change (effective 2018) by the Tax Cuts and Jobs Act (TCJA) would prompt employee interest in accountable plans?
    a. Unreimbursed employee business expenses must exceed 2% of adjusted gross income (AGI) to benefit from the deduction.
    b. Unreimbursed employee business expenses are no longer deductible.
    c. Unreimbursed employee business expenses are only deductible if claiming the standard deduction.
    d. Unreimbursed employee business expenses must be reported as taxable income.
    e. Unreimbursed employee business expenses are deductible only to the extent of related business income.

28. For a reimbursement arrangement to qualify as an accountable plan, the employer must require which features:
    a. The expenses must have a business purpose.
    b. The expenses must be substantiated within a reasonable time.
    c. Any money not spent must be returned within a reasonable time.
    d. a, b and c.
    e. a and b only.

29. A company fully reimburses an employee for a business dinner costing $200. Assuming an accountable plan, the company can claim a <u>tax deduction</u> of:
    a. $0.
    b. $50.
    c. $100.
    d. $150.
    e. $200.

30. Under the TCJA, the business deduction for entertainment expenses:
    a. Was retained at 100%.
    b. Was retained at 100%, but timely substantiation is required.
    c. Was reduced from 100% to 50%.
    d. Was limited to a new per diem rate for the locality.
    e. Was eliminated.

31. To substantiate a business expense, the company must have documentation that:
    a. Shows the time, place and amount of the expense.
    b. Shows the business purpose of the expense.
    c. Is original, not a copy.
    d. a and b.
    e. a, b and c.

32. How are business owners treated differently from employees under an accountable plan?
    a. They aren't. All employees must be treated equally.
    b. Owners cannot use federal per diem amounts to prove expenses.
    c. Owners must use original receipts for documentation while employees can submit copies.
    d. Owners must use actual vehicle expenses rather than the standard mileage rate.
    e. Owners cannot receive advance payments.

33. For individual Sec. 274 expenses less than $75, the IRS does not require a specific receipt as part of documentation. This rule does <u>not</u> apply to:
    a. Expenses paid with cash.
    b. Tips.
    c. Expenses paid with a credit card.
    d. Parking expenses.
    e. Lodging expenses.

34. Which of the "reasonable period of time" safe harbors offer the longest period of time to substantiate expenses and return any unused advance?
    a. The periodic-statement method, which allows up to 120 days.
    b. The periodic-statement method, which allows up to 60 days.
    c. The fixed-date method, which allows up to 120 days .
    d. The fixed-date method, which allows up to 90 days.
    e. The facts and circumstances method, which allows up to 180 days.

35. An employee receives a travel advance of $1,000 and does not submit substantiation or return any unspent funds in a reasonable period of time. What is the proper tax treatment?
   a. The employer deducts the $1,000 as travel expense.
   b. The employer deducts the $1,000 as theft loss.
   c. The employer deducts the $1,000 as compensation and includes it the employee's Form W2.
   d. Although the $1,000 is taxable income to the employee, any substantiated expenses may be deducted as Miscellaneous Itemized Expense on the employee's tax return.
   e. The employer cannot deduct the $1,000 and the employee can keep it tax-free.

Sections VI–VII and Exam Questions 36–50 Relate to the *Journal of Accountancy* of Mar., 2020.

Section VI. Financial Planning: Remember to Plan for Risk (Page 14)

36. In the author's scenario where the contentious client sued the CPA over the issue of incentive stock options, the CPA regretted:
   a. Not buying adequate professional liability insurance.
   b. Giving advice about incentive stock options.
   c. Not having adequate documentation of discussions.
   d. Not billing more for the advice.
   e. Not having the client sign a statement acknowledging market risks inherent in the investment.

37. To help identify and avoid troublesome clients, the author advises CPA's to consider whether the potential client:
   a. Listens to and respects professional advice.
   b. Is honest and forthright.
   c. Has sufficient financial acumen.
   d. Responds to requests in a timely manner.
   e. All of the above.

38. At the onset of the client relationship, the CPA/financial planner should:
   a. Evaluate the client's individual situation and determine risk tolerance.
   b. Immediately transfer the client's investment portfolio into the lowest risk program, regardless of the income tax effects.
   c. Have the client sign the usual disclaimer notices.
   d. Have the client read a recommended book about money and investing.
   e. Prepare projections of expected return on investment for the next three years.

39. When the CPA receives a commission or referral fee:
   a. The CPA must report it to the state licensing board.
   b. It must be refunded to the client, unless all firm owners have the appropriate securities licenses.
   c. The CPA must disclose it to the client, in writing.
   d. The CPA must refund the amount as CPA's are not allowed to collect commissions or referral fees.
   e. The CPA may disclose it to the client verbally.

40. In a final reminder to CPA's, the author notes that liability claims often arise from:
   a. Failure to evaluate risk.
   b. Informal, "off-the-cuff" investment advice.
   c. Poor market assessment.
   d. Insufficient liability insurance.
   e. Poor record-keeping.

Section VII. Cafeteria Plan Compliance (Page 52)

41. A Sec. 125 cafeteria plan is also known as:
   a. An employee meal-reimbursement plan.
   b. A single-option benefit plan.
   c. An after-tax savings plan.
   d. A flexible benefit plan.
   e. A nonaccountable plan.

42. Before Sec. 125 was passed, cafeteria plans allowed employees to choose between cash or benefits. However:
   a. Both benefits and cash were taxable.
   b. Cash was taxable but not benefits.
   c. Benefits were taxable, but not cash.
   d. Neither cash nor benefits were taxable.
   e. Health insurance was the only allowable benefit.

43. By paying for qualified benefits offered in a Sec. 125 cafeteria plan through salary reduction (pretax wages):
   a. The employee saves income taxes and payroll taxes.
   b. The company saves payroll taxes.
   c. The company saves income taxes.
   d. a and b.
   e. a, b and c.

44. Qualified benefits under a Sec. 125 cafeteria plan can include:
   a. Dependent care assistance.
   b. Accident and health insurance.
   c. Group term life insurance.
   d. a and b.
   e. a, b and c.

45. Which of the following are allowed to participate in a Sec. 125 cafeteria plan?
   a. Spouses and dependents of an employee.
   b. Current and former employees.
   c. Employees who own 2% or more of the S corporation stock.
   d. A partner in a partnership.
   e. A self-employed person.

46. A Sec. 125 POP plan offers only a single choice between cash or:
   a. Dependent care benefits.
   b. Group term life insurance.
   c. Accident and health insurance.
   d. Prepaid legal service plans.
   e. Medical expense reimbursement.

47. Flexible spending arrangements (FSA's) allow employees to set aside pretax wages to pay for qualified benefits, including:
   a. Medical expense reimbursement.
   b. Adoption assistance.
   c. Dependent care assistance.
   d. a and b.
   e. a, b and c.

48. Amounts set aside under an FSA plan:
   a. Can be accumulated by the employee indefinitely.
   b. Can be rolled into an Individual Retirement Arrangement (IRA) upon the employee's retirement.
   c. Can be accumulated indefinitely, but must be spent by the employee prior to separation from service.
   d. Must be spent during the plan year (including an allowable grace period) or the funds are forfeited under the “use it or lose it” rule.
   e. Are not subject to any limits under Sec. 125.

49. Which of the following would be considered a highly compensated employee?
   a. A 2% shareholder earning $100,000.
   b. An employee earning $100,000 and married to an officer of the company.
   c. An employee earning $125,000 in 2020.
   d. A 2% shareholder who is a sibling of an officer.
   e. A retired officer of the company.

50. Lack of a proper, written plan document:
    a. Could cause only highly compensated employees to pay tax on their plan benefits.
    b. Could cause only key compensated employees to pay tax on their plan benefits.
    c. Could cause all employees to pay tax on their plan benefits.
    d. Would cause no issue as long as the company operated the plan as if a document existed.
    e. Would cause no problem as long as officers and owners did <u>not</u> participate.

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

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