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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
First Quarter (Jan - Mar), 2022 (Course # 2201)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 10 Hours (Category: Interactive Self Study)
Subject division: Attest/Audit 3, Prac. Mgt. 2, Tax 5 (All Technical)

INSTRUCTIONS:

1. Complete but do not submit all the assignments in the **Supplementary Study Guide** with **Course objectives** available at our Web site: www.accounting-education.com
2. Answer the 50 multiple-choice questions by selecting the one **best** answer. **Blacken** the letter; do **not** circle. A score of 70 or better is required.
3. Unless prepaid, please submit a Payment Voucher with your completed Exam.
4. ***Scan/email***, fax or snail mail your answer sheet to AEA for grading 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: ____

Please print your email address: _____________________________________

To which state boards or agencies do you report CPE? ___________________

Sponsor Agreements with State Boards of Accountancy:
Hawaii (#94007-22), **Illinois** (#158-000242), **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.

****For CPE credit, this exam <u>must</u> be submitted to AEA by 7/25/2024.****

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Date completed: ____________________

“Inspiration exists, but it must find us working.”
...Pablo Picasso.

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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Email: info@accounting-education.com

Telephone: 1-800-CPE-EXAM (1-800-273-3926)
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Greensboro, NC 27404

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 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

TWO PAYMENT OPTIONS:
Credit card: Click the secure PayPal link on our Web site and at the “PayPal Guest Checkout” option, enter your credit card information. Please do not send us credit credit information as AEA no longer accepts or processes credit cards.
Check: Mail a check to the PO box indicated to the left.
Exams will be graded when received regardless of payment method.

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Name ____
Firm (If part of address) __________________________
Address_______________________________________
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Phone ____
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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)

PLEASE DO NOT SEND CREDIT CARD# TO AEA.

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 1–25 Relate to the *Journal of Accountancy* – January, 2022.

Section I. When and How to Raise Fees at Your Firm (Page 13)

1. When justifying fee increases even for clients who suffered from effects of the pandemic, one CPA reminds us that these clients:
   a. Received substantial government support and can afford the increase.
   b. Were hesitant to request assistance in filing for various Covid-related aid programs.
   c. Relied heavily on CPAs to navigate the various relief programs, demonstrating our value.
   d. Were slow to pay prior year fees and should be excluded from any fee increases.
   e. Are probably not good clients and should be referred to another firm.

2. Regarding fee discounts or deferred payment plans, one CPA advises:
   a. Offer to valued clients as an exception, not the rule.
   b. Never discount fees, but offer a deferred payment plan when needed.
   c. Offer discounts to new clients only.
   d. Offer deferred payment plans to new clients only.
   e. Never offer discounts or deferred payment plans.

3. One CPA advises raising fees:
   a. Only when necessary to pay the firm's expenses.
   b. Every year, even if by a small amount.
   c. Every year, calculated from the prior year inflation rate.
   d. Every other year.
   e. When the client is having a good year, financially.

4. A firm that has the lowest fees in town can expect to:
   a. Have an easy time hiring quality staff.
   b. Be more profitable than peer firms.
   c. Be very attractive to a firm looking to buy or merge.
   d. Have more difficulty selling to or merging with another firm.
   e. Expand rapidly, offering increasingly more complex services.

5. Once you explain the fee increase to your client, one CPA offers this practical advice:
   a. Offer a deferred payment plan.
   b. Offer a one-year discount to help the client adjust.
   c. Stop talking. Let the client respond.
   d. Advise the client to shop around for a better rate.
   e. Refuse any concessions or counter-offers from the client.

Section II. A Refreshed Focus on Risk Assessment (Page 16)

6. SAS No. 145 was issued to address certain audit challenges identified by:
   a. The AICPA Audit Committee.
   b. The AICPA Financial Reporting Executive Committee.
   c. Several state licensing boards.
   d. The Peer Review Program.
   e. The Center for Audit Quality.

7. To understand and assess an entity's system of internal control, the auditor must evaluate each of the components of the internal control system. Included among those components are:
   a. The control environment, the entity's risk assessment process and the entity's documentation of accounting procedures.
   b. The control environment, the entity's risk assessment process and the entity's process to monitor the system of internal controls.
   c. The control environment, control activities and profitability.
   d. Control activities, information system and communication and the entity's risk control process.
   e. The entity's control environment, the control activities and employee safety history.

8. SAS No. 145 includes a new requirement to separately assess:
    a. Control risk and residual risk.
    b. Inherent risk and residual risk.
    c. Inherent risk and control risk.
    d. Audit risk and tax risk.
    e. Significant risks and insignificant risks.

9. SAS No. 145 provides extensive new guidance on:
    a. Cash controls.
    b. Revenue controls.
    c. Inventory valuation.
    d. Information technology (IT) and consideration of general IT controls.
    e. Evaluating employee risk.

10. Risk assessment considerations related to the pandemic include:
    a. Going concern.
    b. Changes to processes and controls resulting from remote working.
    c. Altered business environment.
    d. a and b.
    e. a, b and c.

11. SAS 145 emphasizes the link between:
    a. Risk assessment and the design and performance of audit procedures.
    b. Inherent risk and control risk.
    c. Audit risk and compliance risk.
    d. Audit procedures and the audit report.
    e. Audit risk and client risk.

12. One tool recommended to help identify areas to focus attention is:
    a. Peer reviews.
    b. Internal quality reviews.
    c. Data analytics.
    d. Use of industry data.
    e. AICPA audit guides.

13. SAS 145 requires the auditor to understand how:
    a. Data analytics reveals risk.
    b. The financial reporting framework relates to the client and its internal control.
    c. Practice aids improve audit effectiveness.
    d. To eliminate inherent risks.
    e. The financial reporting framework requires certain audit risk-testing procedures.

14. The author identifies high-risk areas auditors may need to consider. These include:
    a. Valuation of assets.
    b. Expense recognition.
    c. Revenue recognition.
    d. a and b.
    e. a and c.

15. Regarding automated transactions that have no "paper trail," the author states:
    a. Audit procedures are not required because automation prevents errors.
    b. The auditor can limit transaction testing because automated processes are reliable.
    c. The auditor must obtain a deep understanding of the controls surrounding information processing.
    d. The auditor can rely upon prior year documentation as IT systems rarely change.
    e. The auditor is required to obtain only a general understanding of the information processing controls.

Section III. Like-Kind Exchanges of Real Property (Page 30)

NOTE: Provisions of the American Family Plan (AFP) would limit the benefit of a Sec. 1031 exchange. The AFP has stalled in Congress and it doesn't appear likely the provisions will become law until elections change the makeup of Congress. The exam will focus on provisions currently in effect.

16. Sec. 1031 allows a taxpayer to defer paying taxes on the gain resulting from the exchange of property. To qualify for this treatment the property must be:
    a. Tangible real or personal property.
    b. Tangible real or personal business property.
    c. Real property used in a business or held for investment.
    d. Real property held for any use (including personal).
    e. Property of any type, including intangible property such as patents and trademarks.

17. A taxpayer arranges to exchange their $500,000 primary residence for a $500,000 town home in a resort retirement community. Will the taxpayer be able to exclude capital gain using Sec. 1031?
    a. Yes. The properties are "like-kind."
    b. Yes. The properties are of equal value.
    c. No. A personal residence does not qualify for Sec. 1031 treatment.
    d. Yes. The value does not exceed $500,000.
    e. Yes. But only if the taxpayer files as "married filing jointly."

18. A taxpayer, or qualified intermediary (QI), relinquish property on Dec. 31, 2021. To remain eligible for Sec. 1031 treatment, the taxpayer (or QI) must identify replacement property by:
    a. Jan. 30, 2022.
    b. Feb. 14, 2022.
    c. Feb. 28, 2022.
    d. Apr. 15, 2022.
    e. Jun. 30, 2022.

19. The taxpayer above does not extend their tax return. To retain the Sec. 1031 treatment, they must acquire the property on or before:
    a. Feb. 15, 2022.
    b. Mar. 31, 2022.
    c. Apr. 15, 2022.
    d. Jun. 28, 2022.
    e. Oct. 15, 2022.

20. Which of the following could void Sec. 1031 treatment and trigger a taxable event?
    a. Taxpayer identifies replacement property 30 days after transfer of relinquished property.
    b. Taxpayer relinquishes property 30 days after identifying replacement property.
    c. Taxpayer identifies replacement property, then later decides not to sell "relinquished" property.
    d. The taxpayer sells a qualifying property, deposits the check and then writes a check for the same amount to the qualified intermediary (QI).
    e. Taxpayer and a third party each owning rental property of equal value with no mortgage agree to trade properties.

21. To assure a Sec. 1031 exchange is properly executed, the taxpayer should enter into a(n) ___________ with a qualified intermediary (QI):
    a. Listing agreement.
    b. Sales agreement.
    c. Exchange agreement.
    d. Attorney-in-fact.
    e. Tax deferral agreement.

22. The function of the qualified intermediary (QI) is to:
    a. Sell the taxpayer's relinquished property.
    b. Hold the proceeds of that sale.
    c. Purchase the taxpayer's acquired (identified) property.
    d. Transfer the acquired property to the taxpayer.
    e. All of the above.

23. For replacement property, the taxpayer can select up to _______ properties of any fair market value (FMV).
    a. One.
    b. Two.
    c. Three.
    d. Four.
    e. Five.

24. If the total FMV of the replacement properties identified doesn't exceed 200% of the FMV of the relinquished property, the taxpayer may select up to _________ replacement properties.
    a. Three.
    b. Four.
    c. Five.
    d. Ten.
    e. Unlimited.

25. "Boot" refers to exchange events that could could cause some or all of the gain to become taxable, such as:
    a. Receiving some of the sales proceeds in cash.
    b. Receiving property that is not like kind.
    c. Debt relief that is is greater than debt assumed.
    d. a, b and c.
    e. b only.

Sections IV-V and Exam Questions 26– 40 Relate to the *Journal of Accountancy* – February, 2022.

Section IV. Embracing Technology in the Audit (Page 8)

26. Information generated by data analytics software allows auditors to more effectively:
    a. Perform risk assessments and design appropriate procedures..
    b. Detect anomalies.
    c. Replace human judgment.
    d. a and b.
    e. a, b and c.

27. One of the biggest benefits of data analytics and technology:
    a. Ability to analyze an entire population of data, rather than relying on sampling and its restraints.
    b. Minimal implementation time.
    c. Cost savings through staff reductions.
    d. Elimination of human judgment.
    e. Financial, through increased billing and reduction of staff overtime.

28. One firm employed machine learning technology to scan and summarize contract terms to aid analysis. This is useful for extracting data needed for:
    a. Cash flow statements.
    b. Going concern issues.
    c. FASB required revenue recognition and lease accounting.
    d. Income tax preparation.
    e. Inventory valuation.

29. One firm's technology team focuses on the audit process and has learned one of the biggest challenges is determining what data is available and:
    a. The cost to analyze it.
    b. How reliable the data is.
    c. Whether the data is relevant to the audit.
    d. Whether software is available to perform the analysis.
    e. Getting client consent for access.

30. One of the biggest obstacles to firms adopting technology is:
    a. The prohibitive cost.
    b. Limited benefits.
    c. Finding the time to implement.
    d. Complexity of the software.
    e. Staff resistance to change.

Section V. Full Disclosure: When Tax Transactions Must be Reported (Page 24)

31. Taxpayers must disclose to the IRS their participation in a "reportable transaction." In addition, material advisors with respect to the reportable transaction must disclose information to the IRS about the transaction and:
    a. Disclose fees or commissions earned.
    b. Provide the IRS a list of persons advised.
    c. Maintain a list of persons advised.
    d. Provide a total of amounts involved and resulting tax savings.
    e. Provide a list of other known advisors of the transaction.

32. The IRS requires additional information included with the return because a reportable transaction is:
    a. Any transaction or series of transactions that must be reported on an information return, such as a Form W-2 or Form 1099.
    b. A type of transaction that has potential for tax evasion.
    c. A type of transaction usually involving foreign currency.
    d. Usually uncommon, such as an exchange of property.
    e. Any transaction that exceeds one-half of the taxpayer's average income for the previous three years.

33. One example of a reportable transaction is a "listed transaction," which is any transaction:
    a. That is similar to tax avoidance transactions identified by the IRS in a notice, regulation or other publication.
    b. That is listed in the IRS's comprehensive list of tax-avoidance schemes in Notice 2017-10.
    c. Involving entities listed in IRS Reg. Secs. 6111 and 6112.
    d. Involving any advisors listed on the IRS's "watch list."
    e. Disallowed by the tax court.

34. One of the more r<u>ecent</u> listed transactions highlighted by the IRS is:
    a. BOSS (bond and option sales strategy).
    b. Son-of-boss.
    c. Certain syndicated conservation easements.
    d. Lease stripping.
    e. Donating stock to a charity.

35. A type of listed transaction is a "confidential transaction," in which:
    a. The taxpayer signs a confidentiality agreement with the IRS.
    b. The taxpayer is offered the transaction under a condition of confidentiality and pays the advisor a minimum fee.
    c. The taxpayer is paid a fee to keep the transaction confidential.
    d. The taxpayer agrees to confidentiality and pays a contingent fee to the advisor.
    e. The taxpayer agrees to confidentiality but pays no fee.

36. Another listed transaction includes the use of contractual protections providing partial or full refund of fees if:
   a. If the taxpayer decides against the transaction.
   b. The IRS examines the taxpayer's return.
   c. The intended tax consequences are not achieved.
   d. The taxpayer refers other clients to the advisor.
   e. The tax benefits exceed the advisor's projections.

37. A loss transaction is reportable if an individual engaging in it claims a loss of at least _________ in any single tax year or ___________ in any combination of years.
   a. $50,000, $50,000.
   b. $10 million, $20 million.
   c. $2 million, $2 million.
   d. $4 million, $4 million.
   e. $2 million, $4 million.

38. Reportable transactions are reported to the IRS on:
   a. An attached statement with the tax return.
   b. A statement mailed separately from the tax return.
   c. Form 8886, filed with the tax return.
   d. Form 8886, filed separately from the tax return.
   e. The related tax form. For example, losses from a reportable transaction involving investments would appear on Schedule D.

39. A material advisor is any person who provides material aid, assistance or advice in organizing, managing, promoting, selling any reportable transaction and directly or indirectly derives gross income of at least _________ where substantially all tax benefits are provided to natural persons.
   a. Any amount of compensation.
   b. $1,000.
   c. $10,000.
   d. $50,000.
   e. $250,000.

40. A taxpayer (a natural person) fails to make any required disclosure on any tax return or statement regarding a listed reportable transaction. The penalty is equal to 75% of the decrease in tax as a result of the transaction, subject to a minimum of __________ and a maximum of _________.
   a. $1,000 and $5,000.
   b. $5,000 and $100,000.
   c. $5,000 and $10,000.
   d. $10,000 and $50,000.
   e. $50,000 and $200,000.

Sections VI – VII and Exam Questions 41– 50 Relate to the *Journal of Accountancy* – Mar., 2022.

Section VI. Tread Carefully When Using Noncompete Agreements (Page 4)

41. A noncompete agreement is a contract between:
   a. Two entities employing the same person.
   b. An employer and an employee.
   c. Two or more employees of the same company.
   d. Two or more entities wanting to hire the same person.
   e. A current employer and former employer of the same person.

42. A typical noncompete will limit a former employee's ability to work for a competitor:
   a. For a specified period of time after leaving the entity.
   b. Within a specified geographical area.
   c. Unless the compensation is less than a specified amount.
   d. a and b.
   e. a, b and c.

43. ______________ determines what noncompete agreement provisions are enforceable.
   a. Each state's laws and rules.
   b. Federal statutes.
   c. Rules issued by the U.S. Small Business Administration.
   d. Rules contained in the Uniform Commercial Code.
   e. Internal Revenue Service.

44. Rather than a broad noncompete agreement, the author suggests less restrictive contracts, such as:
   a. Confidentiality agreements.
   b. Nonsolicitation agreements.
   c. Nonreferral agreements.
   d. a and b.
   e. b and c.

45. Where noncompete agreements are allowed, the author recommends:
   a. They are narrowly drafted to protect a legitimate business need.
   b. They are reasonable in scope and not detrimental to public interest.
   c. The employee receives something of value (other than the job itself) for signing.
   d. a and b.
   e. a, b and c.

Section VII. Tax Matters (Page 28)

46. Reading the facts of the Donna McNulty tax court case, what entity was intended to legally own the American Eagle gold coins?
   a. Check Book IRA.
   b. Green Hill Holdings, LLC.
   c. Kingdom Trust Co.
   d. Ms. McNulty's self-directed IRA.
   e. Ms. McNulty (individually).

47. The IRS (and tax court) concluded the amount of IRA funds used to purchase gold coins constituted a taxable distribution because:
   a. IRAs cannot own coins.
   b. IRAs can only own gold indirectly through publicly traded funds.
   c. Ms. McNulty took delivery of the coins and stored them in her home.
   d. The coins were later sold and the proceeds were not deposited in her IRA.
   e. The coins were used as collateral to secure a loan.

48. According to the article, where should IRA-owned gold coins be stored?
   a. The owner's bank safe deposit box.
   b. Bank or IRS-approved nonbank trustee.
   c. IRS-approved bank only.
   d. Any location <u>not</u> owned by the IRA owner.
   e. The owner's attorney or CPA.

49. The IRS disallowed vehicle, travel and other expenses claimed by a taxpayer involved in a plan to develop land for rental to farmers. The expenses were disallowed because:
   a. The taxpayer could not provide substantiation.
   b. The expenses related to construction of a barn which was not completed until the following year.
   c. Taxpayer claimed the expenses on the incorrect form.
   d. Taxpayer could not establish that business had commenced during the tax year.
   e. Taxpayer was still in the startup stage and so could deduct only $5,000 of the costs.

50. Assume a new business incurred $9,500 of startup expenses and the business activities began January 1. How much of the startup expenses can the business deduct for that tax year?
   a. $300.
   b. $633.33.
   c. $5,000.
   d. $5,300.
   e. $9,500.

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

Thank you for your business and referrals.