Accounting Education Associates, LLC
(www.accounting-education.com)
PO Box 4192, Greensboro, NC 27404
Email Address: info@accounting-education.com
Phone: (800) CPE-Exam; Fax: (800) 645-1099

QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
First Quarter (Jan – Mar), 2023 (Course # 2301)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 8 Hours (Category: Interactive Self Study)
Subject division: Fin Plan 1, Prac. Mgt. 1, Tax 6

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:
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 must be submitted to AEA by 11/28/2025.****

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Date completed: _____

"The man on top of the mountain didn't fall there."
… Vince Lombardi

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 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.**

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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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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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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.

Payment Voucher: Please complete and submit this form with your downloaded Exam(s).

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Email: info@accounting-education.com
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Name _____
Firm (If part of address) _____
Address_____
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To which state board(s) do you report CPE?_____
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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 1–30 Relate to the *Journal of Accountancy* – January, 2023.

Section I. Client Breakups Can Create Malpractice Risk (Page 4)

1. In divorce claims, _____ is often asserted against the CPA.
   a. Fraud.
   b. Overcharging for services.
   c. Negligence.
   d. Conflict of interest.
   e. Failure to file.

2. The author recommends the CPA include engagement letter provisions that:
   a. Require the client to timely inform the CPA of a material change in fact, such as marital status or business ownership.
   b. In the case of a dispute (such as divorce), the parties acknowledge that the CPA may have a conflict of interest.
   c. In the case of a conflict of interest, the CPA is disallowed from providing any services to either party.
   d. a, b and c.
   e. a and b only.

3. When both divorcing (or disputing) parties wish to retain the same CPA for tax preparation, the author advises the CPA:
   a. May prepare income tax returns, but should not offer any advice.
   b. May prepare income returns for and offer advice to both parties.
   c. Should prepare income tax returns for only one party and should not offer advice to either party.
   d. Should not prepare income tax returns for or offer advice to either party.
   e. Should decline to offer any services to either party until the divorce or dispute has been resolved.

4. When there are choices in the preparation of the tax returns (such as: filing status) the author states:
   a. The clients must make the decision and mutually agree.
   b. Each party must communicate their decision to the CPA in writing.
   c. The CPA should keep documentation of client's decisions in the workpapers.
   d. a and b.
   e. a, b and c.

5. Divorcing couples may decide to file as "married filing jointly." In that case:
   a. Each party has the right to see the other party's Forms W-2 or 1099.
   b. Each party is entitled to a copy of the other party's tax return, but not Forms W-2 or 1099.
   c. If interest or dividends is reported, each party is allowed to see the underlying statements showing the account balance.
   d. Neither party can view the other's Form W-2, but is allowed to know the amounts of taxable income reported, along with federal and state taxes withheld.
   e. Each party is allowed to see the Schedule K-1 for any business income reported and the income statement for the underlying business.

6. If deciding to represent both parties in divorce or a dispute, the CPA should have the parties sign a conflict of interest waiver. In this waiver the parties acknowledge:
   a. There is significant risk that representation of one spouse may materially limit representation of the other.
   b. The benefitting spouses agree to compensate the other.
   c. All parties waive the right to independent representation.
   d. a and c.
   e. a, b and c.

Section II. Initial Direct Cost and Deferred Rent Under FASB ASC 842 (Page 14)

Note: For some of the questions it may be helpful to review the charts and jounal entry examples.

7. FASB ASC Topic 842 is based on determining whether a contract:
   a. Conveys title to an asset.
   b. Is considered a sale or lease under the Uniform Commercial Code.
   c. Conveys the right to control the use of an identified asset.
   d. Extends to the useful life of an asset.
   e. Is transferrable to another party.

8. In this article, the authors focus on how guidance on _____ differs between Topics 840 and 842.
   a. Deferred rent.
   b. Initial direct costs.
   c. Lease expense.
   d. a and b.
   e. a, b and c.

9. Under Topic 840, deferred rent is the <u>difference</u> between:
   a. The amount reported as lease expense (straight-line amortization of total lease payments) and the actual payment.
   b. The amount actually paid, less a portion of initial direct costs.
   c. The amount reported as lease expense (straight-line amortization of total lease payments) less a portion of actual direct costs.
   d. The amount reported as lease expense (straight-line amortization of total lease payments) less a portion of deferred tax assets.
   e. The actual payment less a portion of the present value of total lease payments (using the assumed interest rate in the lease).

10. Assume an entity signed a 10 year lease requiring annual payments of $100,000 for years one through five and $120,000 for years six through ten (a total of $1,100,000). Assume also the entity incurred $50,000 of initial indirect costs associated with the lease. Under Topic 840, what amount would be reported as "Lease Expense" on the income statement each year?
    a. $100,000.
    b. $110,000.
    c. $115,000.
    d. $120,000.
    e. $150,000.

11. Assuming the same facts in question #3, would an entry be required for deferred rent each year and if so, how much?
    a. No.
    b. Yes. $5,000.
    c. Yes. $7,500.
    d. Yes. $10,000.
    e. Yes. $15,000.

12. Assuming the same facts in questions #3 and #4, should there be an entry to record a deferred tax asset and deferred income tax expense? And if so, what would be the amounts for year one assuming an income tax rate of 20%.
    a. Yes. $1,000.
    b. Yes. $1,500.
    c. Yes. $2,000.
    d. Yes. $3,000.
    e. No.

13. Under Topic 840, accounting for leases that have escalating payment provisions will require recording deferred rent and a deferred tax asset on the balance sheet. At the end of the lease term what would you expect to happen?
    a. Both accounts shoud have a zero balance.
    b. Only the deferred rent account will be zero. The deferred tax asset account will only clear to zero when the tax returns are filed.
    c. Only the deferred tax account will be zero. The deferred rent account will include a portion of unamortized initial indirect costs.
    d. Neither account will be zero due to timing differences.
    e. Both accounts will have the same balance, but not zero.

14. Topic 842 brought about a major change in accounting for:
    a. Capital leases greater than one year.
    b. Operating leases greater than one year.
    c. All operating leases.
    d. All capital leases.
    e. c and d.

15. Under Topic 842, operating leases longer than one year must be recorded as an asset and related liability, generally using the terms:
    a. Right-of-use asset and lease liability.
    b. Lease expense and lease liability.
    c. Right-of-use asset and deferred rent.
    d. Right-of-use asset and deferred tax asset.
    e. Lease expense and right-of-use asset.

16. Under Topic 842, *initial direct costs* are defined as:
    a. An portion of allocated overhead if the lease had not been obtained.
    b. Incremental costs of a lease that would <u>not</u> have been incurred if the lease had not been obtained.
    c. Incremental costs of a lease that would <u>not</u> have been incurred if the lease had not been obtained, including allocated overhead.
    d. A portion of overhead allocated to lease acquisition.
    e. Allocated overhead that would not have been incurred if the lease had not been obtained.

17. Under Topic 842, how are initial indirect costs treated?
    a. Capitalized as a separate asset and amortized over the life of the lease, included in "Lease Expense."
    b. Capitalized as a separate intangible asset and amortized using the IRS guideline of 15 years.
    c. Initial indirect costs are considered part of overhead and expensed as incurred.
    d. Topic 842 is silent on the treatment of initial indirect costs.
    e. Capitalized and added to the right-of-use asset which is amortized to lease expense over the life of the lease. It is not displayed as a separate asset.

18. Under Topic 842, the right-of-use asset is calculated as:
    a. The total lease payment amounts.
    b. The total lease payment amounts, plus the initial indirect costs.
    c. The present value of the total lease payment amounts, plus the initial indirect costs.
    d. The present value of the total lease payment amounts only.
    e. The total lease payment amounts, less the indirect indirect costs.

19. How does the calculation of the lease expense amount differ between Topics 840 and 842? (Note: ignore the difference in how initial direct costs are defined.)
    a. There is no difference. Lease expense is the total lease payment obligation amortized straight-line over the life of the lease.
    b. There is no difference. Lease expense is the total lease payment obligation <u>plus</u> initial direct costs amortized straight-line over the life of the lease.
    c. Lease expense under Topic 840 does not include amortization of initial direct costs while Topic 842 does.
    d. Lease expense under Topic 842 does not include amortization of initial direct costs while Topic 840 does.
    e. Under Topic 840, lease expense is the actual lease payment while Topic 842 combines the actual lease payment with the amortized amount of initial direct costs.

20. Under Topic 842, how is the right-of-use asset treated over the life of the lease?
    a. It is considered part of fixed assets and depreciated accordingly.
    b. It is amortized straight-line over the life of the lease.
    c. It is reduced each year by the amount of actual lease payments.
    d. It is reduced by the amount the amortized lease expense plus the reduction in lease liability exceeds the actual lease payment.
    e. It is reduced by the same amount the reduction in the lease liability differs from the actual lease payment.

21. Each year, the adjustment to the deferred tax asset account is calculated by multiplying the tax rate by the:
    a. Difference between the amortized lease payment and the acutal lease payment amount.
    b. Actual lease payment amount
    c. Amortized lease expense.
    d. Difference between the actual lease payment and the right-of-use adjustment.
    e. Sum of the lease liability reduction and the lease liability interest expense.

Section III. The Rise of the Cash Balance Pension Plan (Page 27)

22. There are two general types of retirement plans:
    a. Sec. 401(k) and IRAs.
    b. IRAs and company-provided plans.
    c. Profit sharing plans and Sec. 401(k) plans.
    d. Defined benefit plans and defined contribution plans.
    e. Cash balance plans and Sec. 401(k) plans.

23. Under a cash balance plan (CBP), upon retirement, the employee is entitled to:
    a. A “hypothetical” account balance.
    b. The actual balance in their account.
    c. An allocated share of the total investment account, based upon contributions and earnings.
    d. An unspecified guaranteed monthy benefit.
    e. The actual total of contributions plus investment earnings.

24. The employee's CBP account changes annually by:
    a. The actual investment performance plus a “pay credit.”
    b. The annual plan contribution plus actual investment performance.
    c. A “pay credit” plus and “investment credit.”
    d. The employee contribution and the company contribution.
    e. Amounts distributed or borrowed.

25. One feature <u>business owners</u> like about CBPs is:
    a. They can receive a guaranteed monthly retirement benefit for life.
    b. They can contribute three or four times the dollar limits allowed by other plans, such as a 401(k).
    c. The business doesn't need a lot of cash to fund the plan.
    d. The plan investment performance is guaranteed.
    e. The plan is inexpensive to operate.

26. CPBs offer some significant flexibility in plan design features, including:
    a. Owners can receive different contribution amounts than employees.
    b. There can be difference classes of employees with different contribution levels.
    c. Contribution amounts can be a fixed-dollar amount or a percentage of compensation.
    d. a and b.
    e. a, b and c.

27. Because CBPs provide a specified balance to the participant:
    a. The business needs a reliable cash flow to fund the plan.
    b. The participant must make large contributions.
    c. The business bears the risk of investment performance.
    d. a and c.
    e. a, b and c.

28. For 2022, CBPs can build a participant's maximum allowable pension balance of:
    a. $245,000.
    b. $305,000.
    c. $3.1 million.
    d. $3.2 million.
    e. $4.3 million.

29. A CBP requires several different professionals to operate. Who would the entity retain to ensure rules of the Employee Income Retirement Security Act (ERISA) and Department of Labor (DOL) are followed correctly?
    a. The investment manager.
    b. The third-party administrator (TPA).
    c. Custodian.
    d. Investment manager.
    e. Record keeper.

30. A significant benefit of CBPs is the contributions are tax deductible to the entity. Which of the following dates would be the latest the business could contribute to the CBP for the tax year ending December 31, 2022?
    a. December 31, 2022, the last day of the tax year.
    b. January 31, 2023, due date for Forms W-2.
    c. March 15, 2023, due date for the business tax return.
    d. July 15, 2023, due date of the employee plan report.
    e. September 15, 2023, due date of the business tax return (with a timely-filed extension request).

Sections IV-V and Exam Questions 31– 50 Relate to the *Journal of Accountancy* – February, 2023.

Section IV. Private-Equity Eyes Accounting Firms Large and Small (Page 7)

31. Private-equity firms see in the accounting sector an opportunity to:
    a. Purchase firms at a discount.
    b. Build "platform" firms that can expand to become market leaders.
    c. Purchase small to mid-size firms that can remain independent.
    d. Buy and hold as a stable investment.
    e. Buy, institute cost controls, then sell.

32. Large accounting firms may be open to private-equity investors as a way to:
    a. Fund technology.
    b. Attract talent.
    c. Fund growth.
    d. a and b.
    e. a, b and c.

33. The author notes investment is needed to address _____ that affect audit and compliance.
    a. Automation.
    b. Constant law changes.
    c. Offshoring.
    d. a and c.
    e. a, b and c.

34. Firms that accept private-equity investment are warned to:
    a. Investigate entities associated with the equity firm to avoid threats to independence.
    b. Limit investment to less than 50% ownership to assure the firm partners retain control.
    c. Avoid public announcement of the investment.
    d. Avoid using the funds to upgrade technology.
    e. Limit distributions to the existing partners in order to reduce their tax obligations.

35. Firms with an audit practice that are considering private-equity investment:
    a. Are disallowed from accepting <u>any</u> private-equity funds.
    b. Should review other companies in the private-equity portfolio for possible audit work.
    c. Will likely separate the firm into two companies, one for audit business and the other for all the other services, to receive the investment.
    d. Will need to notify all <u>audit</u> clients of the investment.
    e. Will need to withdraw from engagements with publicly-held companies.

36. One benefit to partners when an equity fund invests in their firm is they:
    a. Receive an immediate payout, rather than waiting for retirement to begin receiving compensation for their partnership interest.
    b. Generally receive a salary increase.
    c. Receive stock in the equity fund.
    d. Have more job security.
    e. Can buy into the equity fund.

37. Partners in firms accepting private-equity investors generally expect the original investors will sell their interests at a profit to a new investor in:
    a. Two to five years.
    b. Three to five years.
    c. Three to six years.
    d. Three to seven years.
    e. Five to seven years.

38. While the private-equity investment helps attract new partners, there is a risk, as the new partners reward depends upon:
    a. How well the company can grow the firm.
    b. Older partners retiring.
    c. A second sale to new partners.
    d. a, b and c.
    e. a and c.

39. Which <u>unexpected</u> benefit of having private-equity investors was noted by one CPA?
    a. Access to loans improved.
    b. Improved attention to financial aspects of the firm.
    c. Investment in technology.
    d. Employee retention.
    e. Merger opportunities.

40. One consultant wonders what happens when a firm grows so large, there is no buyer and suggests:
    a. The investors may sell part of the firm.
    b. The investors may divide the firm into separate companies.
    c. The partners may buy the firm back from the investors as "damaged goods."
    d. The partners may leave and form a new firm.
    e. The partners may retire.

Section V. How to Talk About Long-Term Care with Clients (Page 15)

41. According to one financial planner, if a client waits too long to consider their long-term care options and means of funding, they could:
    a. Be forced to act quickly if an emergency arises and miss out on certain care options.
    b. Miss the chance to buy insurance at a reasonable price.
    c. Lose significant tax deductions.
    d. a and b.
    e. a, b and c.

42. One financial planner helps clear potential misconceptions with clients by explaining that in their state, the average age for entering long-term care is _____ and the average length of a nursing home stay (the most expensive) is _____.
    a. 79 years old and more than 100 days.
    b. 89 years old and less than 100 days.
    c. 79 years old and less than 100 days.
    d. 85 years old and less than 79 days.
    e. 79 years old and more than 79 days.

43. Long-term care can include:
    a. Occassional in-home nurse visits.
    b. Extended hospital stays.
    c. Assisted living and nursing home facilities.
    d. a, b and c.
    e. b and c, only.

44. Long-term care insurance typically covers:
    a. Up to 13 weeks of care.
    b. Up to 6 months of care.
    c. A set number of years.
    d. A set number of years, beginning after age 55.
    e. Unlimited number of years beginning after age 65.

45. One expert stated clients likely considered long-term care insurance when:
    a. They are concerned about conditions early in life (perhaps heredity) that could bankrupt a spouse or partner.
    b. They want to preserve an inheritance and can afford the premium.
    c. They learned the premiums could be tax-deductible.
    d. a and b.
    e. a, b and c.

46. A financial advisor has found it often benefits clients with over _____ in assets to self-insure.
    a. $500,000.
    b. $1,000,000.
    c. $2,000,000.
    d. $5,000,000.
    e. $10,000,000.

47. Some drawbacks to long-term care insurance can include:
    a. The carrier could go out of business.
    b. Age or health conditions could make the premiums unaffordable.
    c. The government could develop programs in the future that make long-term care more affordable.
    d. a and b.
    e. a, b and c.

48. Some clients may forgo long-term care insurance and choose _____ which requires a large down payment.
    a. A continuing care retirement community.
    b. In home care.
    c. Memory care.
    d. Skilled nursing care.
    e. An independent living community.

49. Short stays in a skilled nursing facility (generally due to surgery or short-term health needs) can be paid by Medicare, up to 100% for _____ days or less.
    a. 10.
    b. 15.
    c. 20.
    d. 25.
    e. 30.

50. This type of insurance policy guarantees at least some type of benefit is received.
    a. Long-term care insurance.
    b. Life insurance.
    c. Disability insurance.
    d. Life insurance with a long-term care rider.
    e. Supplemental insurance.

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

Thank you for your business and referrals.