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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Fourth Quarter (Oct – Dec), 2023 (Course # 2304)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 8 Hours (Category: Interactive Self Study)
Subject division: Audit 3, IT 1, Mgt Acctg 1, Tax 3

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:
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Please leave this space blank for your Certificate of Completion.

For CPE credit, this exam must be submitted to AEA by 6/19/2026.

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Date completed: __________________

"Congress can raise taxes because it can persuade a sizable fraction of the populace that somebody else will pay."
... Milton Friedman, Economist

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.

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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.

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We recommend CPE credit of ten (8) hours in based on a 50-minute hour for Interactive Self-Study CPE courses. The estimated completion time of 8 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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Exams will be graded when received regardless of payment method.

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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-IV and exam questions 1-25 Relate to the Journal of Accountancy – October, 2023

Section I. Generative AI and Risks to CPA Firms (page 4)

1. Some of the concerns about use of generative AI such as ChatGPT by a CPA firm include:
   a. Cost.
   b. Reliability.
   c. Confidentiality.
   d. a, b and c.
   e. b and c only.

2. When data is entered into generative AI, you are sharing the data with:

   a. The related client.
   b. Certain regulatory agencies such as the IRS, SEC, etc.
   c. The AI tool's owners.
   d. All firm personnel.
   e. The hardware manufacturer.

3. Some reasons generative AI may produce inaccurate information can include:

   a. The data it has "trained on" may be out of date.
   b. It may not be able to differentiate between reliable and unreliable information sources.
   c. It may lack the ability to understand context and nuance.
   d. a, b and c.
   e. a and c only.

4. The author suggests certain guidelines related to AI <u>data input</u>, including:

   a. Prohibiting the entry of confidential firm and client information.
   b. Determining which tasks may be best suited to using generative AI.
   c. Understanding its limitations.
   d. Supervision and review of output.
   e. Adequate training for personnel.

5. The author emphasizes that all work produced using generative AI:

   a. Requires little if any review.
   b. Should be reviewed as any other work product.
   c. Should only be reviewed if it is part of a report delivered to a client.
   d. Requires no review if it is for internal use only.
   e. Requires no review as AI accuracy is reliable.

Section II. How Accounting Leaders Can Embrace ESG for a Strategic Advantage (Page 12)

6. The movement for companies to adopt ESG strategies and related reporting has been driven by:

   a. Congress.
   b. The SEC.
   c. Environmental regulatory agencies.
   d. Various business advocacy groups and trade associations.
   e. Institutional investors.

7. Benefits the authors note a company may experience once ESG metrics are identified and reported include :

   a. Income tax credits.
   b. Preferential income tax deductions for costs incurred to implement ESG reporting.
   c. Preferential loan rates from traditional lenders.
   d. a, b and c.
   e. a and b only.

8. The authors state that accounting and finance personnel will play a vital role in:

   a. Establishing rules for data governance.
   b. Designing internal controls for the reporting process.
   c. Assigning responsibilities across finance and sustainability teams.
   d. a, b and c.
   e. a and b only.

9. To begin the ESG process, the authors recommend forming an oversight committee, which would typically include the CEO, CFO, general counsel, plus leaders from:

   a. Accounting, investor relations and sustainability.
   b. Accounting, investor relations and public relations.
   c. Accounting, investor relations and human resources.
   d. Accounting, investor relations and operations.
   e. Accounting, investor relations and information systems.

10. The authors note that boards are beginning to link __________ with sustainability and financial performance.

    a. Employee benefits.
    b. Retirement benefits.
    c. Executive compensation.
    d. Employee bonuses.
    e. Employment contracts.

11. After the steering committee is formed, the authors recommend comparing ESG efforts to:

   a. Employee expectations.
   b. Investor priorities.
   c. Industry peers.
   d. a, b and c.
   e. b and c only.

12. After benchmarks are determined the authors recommend building a strategic ESG road map, which is intended to improve ESG:

   a. Communications and reporting.
   b. Risk management.
   c. External auditing processes.
   d. a and b.
   e. a, b and c.

13. The authors note a good starting point for developing an ESG framework would include considering those developed by:

   a. The Task Force on Climate-Related Financial Disclosures (TCFD).
   b. The Sustainability Accounting Standards Board (SASB).
   c. The Greenhouse Gas Disclosure Project (GGDP).
   d. a, b and c.
   e. a and b only.

14. The SEC greenhouse gas emissions data disclosure rules will require __________ assurance for the first two years and afterwards __________ assurance ?

   a. Limited and material.
   b. Limited and reasonable.
   c. Limited and absolute.
   d. Finite and reasonable.
   e. Limited and acceptable.

15. Which organization issued climate-related disclosure standards (IFRS S1 and IFRS S2)?

   a. Climate Disclosures Standards Board.
   b. The Task Force on Climate-Related Financial Disclosures (TCFD).
   c. The International Sustainability Standards Board (ISSB).
   d. The Sustainability Accounting Standards Board (SASB).
   e. The International Integrated Reporting Council (IIRC).

Section III. How to Implement the Risk-Based Quality Management Standards (Page 20)

16. The quality management standards differ from prior standards in that they:

    a. Establish specific policies that apply to all firms.
    b. Establish specific policies that depend on the size of the firm.
    c. Allow firms to select from a list of prescribed policies that fit their firm.
    d. Allow firms to tailor a risk-based approach to fit their practice.
    e. Allow small firms to adopt risk-based approaches developed by larger firms.

17. The new quality management standards will apply to firms that perform:

    a. Financial statement audits or reviews.
    b. Compilations or agreed-upon-procedures engagements.
    c. Income tax return preparation.
    d. a, b and c.
    e. a and b only.

18. Statement on Quality Management Standards (SQMS) No. 1 requires firms to:

    a. Establish quality objectives and assess risks to quality.
    b. Design and implement responses to respond to the risks.
    c. Issue an opinion to the client regarding risks addressed.
    d. a and b.
    e. a, b and c.

19. The standard defines a quality risk as a risk that ______________ and adversely affects the achievement of a quality objective:

    a. Has a reasonable chance of occurring.
    b. Has a remote chance of occurring.
    c. Has a probable chance of occurring.
    d. Has a likely chance of occurring.
    e. Has a certain chance of occurring.

20. The author lists various sources of firm risks, which can include:

    a. Lack of resources.
    b. Staff competence.
    c. Engagement acceptance procedures.
    d. a and b.
    e. a, b and c.

Section IV. Tax Matters (Page 32)

21. Certain gambling <u>winnings</u> are reported on:

    a. Form W-2.
    b. Form W-2G.
    c. Form W-2c.
    d. A notice of deficiency.
    e. A notice of levy.

22. Susan Mercier believed gambling winnings would not be taxable if the losses exceeded the winnings and so decided <u>not to report</u> either on their 2019 tax returns. This resulted in:

    a. A tax refund.
    b. A notice from the IRS to complete Schedule A.
    c. A notice from the IRS to complete Schedule C.
    d. A notice of deficiency.
    e. A notice from the IRS to appear in tax court.

23. In Tax Court, the Merciers argued that they were professional gamblers. If the court agreed, they would report their net gambling losses and related expenses on:
    a. Form 1040 as "other income or loses."
    b. Schedule A *Itemized Deductions*.
    c. Schedule C *Profit or Loss from Business*.
    d. Schedule G *Profit or Loss from Gambling*
    e. Form 1040-G *Gambling Income.*

24. To determine whether an activity is engaged for a profit, there is a nine-factor test that includes:
    a. Was the activity carried out in a businesslike manner, including proper record-keeping?
    b. Was there sufficient expertise and time or effort?
    c. Was there a profit every year?
    d. a, b and c.
    e. a and b only.

25. The Tax Court found the Merciers were <u>not</u> professional gamblers, citing the couple's failure to:
    a. Use a separate bank account for their gambling "business."
    b. Organize the business as a corporation or limited liability company.
    c. Keep sufficient records.
    d. a and c.
    e. a, b and c.

Sections V-VI and exam questions 26-40 Relate to the Journal of Accountancy – November, 2023

Section V. QM is Approaching Faster Than You Think – Get Ready (Pg. 6)

26. The author notes some practical approaches to implementing the quality management standards, which include:
    a. Step-by-step – Develop all quality objectives first, assessing the risks and then design responses.
    b. Component-by-component – Start with a component the firm feels is well established.
    c. Office-by-office – Allow each firm office to assess risk and design responses unique to each office.
    d. a, b and c.
    e. a and b only.

27. Statement on Quality Management Standards (SQMS) No. 1 specifies that firms should establish quality objectives for several areas within the firm, including:
    a. Engagement performance.
    b. Governance, leadership and resources.
    c. Client acceptance and continuance.
    d. a, b and c.
    e. a and c only.

28. Once quality objectives are established, the firm will identify quality risks, which are:
    a. Risks specific to the firm.
    b. Risks generally encountered by most firms.
    c. Risks listed in detail in SQMS No. 1.
    d. Risks that effect quality of audit work, but not other areas of the firm.
    e. Risks of greatest consequence to the firm.

29. The process of identifying quality risks that do not have effective controls (responses) or identifying certain controls where there is no risk is known as a:
    a. Risk analysis.
    b. Control analysis.
    c. Gap analysis.
    d. Risk assessment process.
    e. Quality control review.

30. SQMS No.1 requires _________ to evaluate (at least annually) whether the system of quality management provides reasonable assurance the firm's quality objectives are being met.
    a. The firm's peer review firm (as part of the audit peer review process).
    b. A firm leader.
    c. The firm managing partner.
    d. Any member of the firm who is a CPA.
    e. An independent CPA firm.

Section VI. Tax Matters (Page 32)

31. A controlled foreign corporation (CFC) is a foreign entity in which the ownership or voting rights are:
    a. Owned entirely by non-US persons.
    b. Owned more than 50% by non-US persons.
    c. Owned more than 50% by US persons.
    d. Owned more than 50% by non-US persons residing in countries with a US tax treaty.
    e. Owned entirely by US persons.

32. The Tax Cuts and Jobs Act (TCJA) subjected US persons owning at least _____ of a CFC to a transition tax on their post-1986 earnings in the CFC, whether distributed or not.
    a. 10%.
    b. 11%.
    c. 15%.
    d. 15.5%
    e. 50%.

33. The owner of Happy Jack Charters, Donald Swanson, claimed significant losses from his charter business for the years 2014 to 2016. After reviewing __________, the IRS determined Mr. Swanson had unreported income of over $80,000.
    a. Financial statements.
    b. Accounting records.
    c. Logs filed with the Alaska Department of Fish and Game.
    d. Charter logs.
    e. Bank statements.

34. The IRS claimed (and the Tax Court agreed) Mr. Swanson's charter business was <u>not</u> operated for a profit and therefore was subject to IRS Code _________ and could only deduct related expenses to the extent of gross income.
    a. Sec 122.
    b. Sec. 162.
    c. Sec. 183.
    d. Sec. 197.
    e. Sec. 212.

35. The author provides a list of nine tests to help determine if a "business" is conducted for a profit or whether it may be considered a "hobby." The tax court determined Happy Jacks Charters was a hobby, citing which of the following factors:
    a. No business plan or separate bank account for the business.
    b. Significant losses for the entire existence.
    c. Lack of significant fishing experience.
    d. a and b.
    e. a, b and c.

Sections VII - IX and exam questions 35-50 Relate to the Journal of Accountancy – December, 2023

Section VII. Auditor Independence Threats and Malpractice Claims (Page 4)

36. Under the AICPA *Code of Professional Conduct*, a CPA must be independent in fact and appearance when providing:
    a. Income tax preparation services.
    b. Audit or attest services.
    c. Financial planning services.
    d. a, b and c.
    e. a and b only.

37. In a professional liability claim, conclusions about auditor's independence are drawn:
    a. By third parties.
    b. After the fact.
    c. Often to bolster a case or compel a settlement.
    d. b and c.
    e. a, b and c.

38. The *Code* describes the "familiarity" threat in attest services as when the CPA:
    a. Is too sympathetic to the client's interests or too accepting of their work.
    b. Audit fees from the client are significant to the firm as a whole.
    c. Non-audit fees from the client are significant to the firm.
    d. a, b and c.
    e. b and c only.

39. Some examples of "self-review" risk listed by the author include:
    a. An attest team member socializing with the client accounting manager.
    b. The firm helps the client with drafting footnotes.
    c. The firm calculates the income tax provision for the client.
    d. b and c.
    e. a, b and c.

40. One practical recommendation by the author is to keep all communications professional and engagement-related, particularly <u>emails</u> because they are:
    a. Discoverable (available to the plaintiff attorney).
    b. Permanent.
    c. Easily searchable.
    d. Subject to having statements taken out of context.
    e. All of the above.

Section VIII. The Home Mortgage Interest Deduction Under the TCJA (Page 16)

41. The Tax Cuts and Jobs Act (TCJA) reduced the mortgage interest deduction to amounts related to ____________ of "acquisition indebtedness" for married couples to:
    a. $375,000.
    b. $500,000.
    c. $750,000.
    d. $1,000,000.
    e. $1,500,000.

42. For the mortgage interest to be deductible, it must be for a "qualified residence" which can include:
    a. Principal residence.
    b. A second home.
    c. Any number of homes whose mortgages total $1,000,000 or less.
    d. a, b and c.
    e. a and b only.

43. In addition to reduction of mortgage interest deductions, the TCJA limited the previously unlimited deduction for state and local taxes (SALT) to:
    a. $5,000.
    b. $7,500.
    c. $10,000.
    d. $12,500.
    e. $15,000.

44. The mortgage interest deduction, no matter how small, will always benefit:
    a. Low income taxpayers.
    b. Taxpayers who cannot claim the standard deduction.
    c. High income taxpayers.
    d. Elderly taxpayers.
    e. Taxpayers who claim the standard deduction.

45. The author demonstrates the tax benefits of the pre-TCJA law, which will return ________ unless Congress extends the law
    a. Dec. 31. 2024.
    b. Jan. 1, 2025.
    c. Dec. 31, 2025.
    d. Jan. 1, 2026.
    e. Dec. 31, 2026.

Section IX. QM Standards: How to Perform a Root Cause Analysis (Page 24)

46. Statement on Quality Management Standards (SQMS) No. 1 requires firms to design and implement a system of quality management tailored to their practices and engagements. The statement requires an enhanced process for monitoring and remediating the system of quality management and shifts the focus of monitoring from the engagement level to the:
    a. System-of-quality-management level.
    b. Firm level.
    c. Department level.
    d. Owner level.
    e. Employee level.

47. As part of the monitoring and remediation requirements, SQMS No. 1 requires firms to:
    a. Evaluate findings.
    b. Identify and evaluate deficiencies in terms of severity and pervasiveness.
    c. Investigate the root cause of identified deficiencies.
    d. a, b and c.
    e. b and c only.

48. The objective of a root cause investigation is to:
    a. Understand the circumstances that cause the deficiencies.
    b. Evaluate the severity and pervasiveness and determine the appropriate remediation.
    c. Determine which persons are responsible in order to terminate or reassign them.
    d. a, b and c.
    e. a and b only.

49. SQMS No. 1 provides an example of a deficiency identified in an audit engagement that did not obtain sufficient evidence to support the client's accounting estimates and provides some examples of root causes, including:
    a. Lack of professional skepticism.
    b. Insufficient supervision.
    c. An environment where engagement team members are not encouraged to question individuals with greater authority.
    d. a, b and c.
    e. b and c only.

50. According to SQMS No. 1, root cause analysis should be performed by:
    a. The firm managing partner.
    b. Individuals assigned the responsibility for the system of quality management.
    c. The partner in charge of the engagement.
    d. The director of human resources.
    e. A third party contractor.

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