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1. Assume nothing, but if necessary information is missing, please supply it and be sure to let me know.

2. You must answer each question on page ONE SIDE ONLY of the blue book to receive credit. Be sure to answer the question that is asked.

3. You may do with the exam as you wish once everyone has taken the exam, otherwise, do not share it with ANYONE.

4. Use a pen or typewrite but not a computer, write legibly as I can only give credit for what I can read.

5. You may use any code or set of regulations BUT NOT THE TEXT OR YOUR NOTES.

6. Citations are not always necessary but oftentimes will help in explaining your answer.

7. The exam contains 20 questions worth 5 points each. Make sure that you have the twenty questions and provide me with 20 answers.

8. You have three hours to complete the exam not a millisecond more. Be concise and do not expect to write a treatise as I do not expect to receive one.

9. The questions may be unrealistic, inconsistent, or merely academic, nonetheless, answer them as best you can under the circumstances.

10. BE SURE TO SIGN IN AND OUT FOR THE EXAM AND THE TWO BLUEBOOKS-USE YOUR NUMBER AND NOT YOUR NAME.

1. You notice a material error on a client's prior year's return which you had not prepared, and advise her to correct it since there seems to be no basis for a fraud charge, although there might possibly be a substantial underpayment penalty. The client decides not to follow your advice. What do you do next and can you represent the client in preparing the current year's return?

2. You are in the process of preparing an estate tax return. The major asset is the stock in a closely held corporation. The book value is $50.00 per share and the fair market value you believe is $70.00 per share. Your decedent's estate owns a minority interest in the corporation and you are considering taking a 25% discount because of it. You are sure that the IRS will settle at $50.00 but only if you artificially start the valuation at $35.00 per share. What do you do and why?

3. You prepared a tax return for a Margaret Thatcher for 1993. She has just received a notice of audit. She asks you to handle the audit, and you in turn ask the client to send you all of the supporting documents. In looking through the records you become aware that the client omitted reporting a sale of a building that had a basis of $10,000.00 for $88,000.00. You investigate the transaction further and conclude that the omission was unintentional. While you were investigating the audit proceeded and the travel and entertainment expense deduction was disallowed improperly in your opinion. The agent is unaware of and is unlikely to find the omitted capital gain transaction and has proposed to close the audit with just the T&E expense disallowance if your client agrees. Your client tells you that she wants to agree with the audit and close it without anything more occurring. You understand her completely. What do you do?

4. At audit you and the Appeals Officer have agreed as to all issues. You have computed the amount that the client will have to pay. On that basis your client has authorized you to settle. When you receive the settlement agreement from the Appeals Officer, it is evident that he has made an arithmetic error in computation, the result of which the deficiency is understated. What do you do?

5. The IRS has asked your client for copies of corporate minutes for the years under examination to determine whether the corporation was justified in accumulating earnings rather than pay dividends which it did not do in the years in question. The client provides you with minutes which you ascertain were typed after the request was made and in fact two years after the meeting took place. The client asserts, however, that these minutes in fact state what was discussed at the relevant meeting. Exactly what do you then do in response to the IRS request ?

6. After the estate tax return was filed but before expiration of the period of limitations and the commencement of audit, the executor discovers bearer bonds in an envelope that is marked "For Jim Bob", the decedent's brother. The bonds were unintentionally omitted from the estate tax return. What do you do assuming you have prepared the return?

7. Jane Eyre wants to help her father financially and asks your opinion how she can put him on the payroll of her business at $25,000.00 a year. Her father lives in Arizona enjoying his retirement and comes to visit his family in Columbus several times a year. She wants you to advise her how she can do so legally so that she can pay for his trip and also give him an income with in effect pre tax dollars. Please do so and explain your answer.

8. In 1990 your client expensed costs associated with a marketing brochure. After audit she agreed to capitalize and amortize over the three year period 1990-1993. You are now doing the 1993 return and will claim the balance of the 1990 expense. However, in 1993, there were additional expenditures for a new marketing brochure. The client wants to expense them all this year. What do you advise? Explain you answer.

9. Because of Charley CPA's inability to control her intake of alcohol, she is usually not prepared and/or late for conferences with personnel for the IRS when appearing on behalf of a client. Since she is so likable, clients do not complain. The IRS is not at all upset as they are able to settle their cases most favorably. Charley shares space with you, claims to be a tax specialist and often calls upon you for advice, which she rarely if ever follows. Please explain the ethical problems this question creates for all concerned.

10. At audit the IRS informs you that they are prepared to settle on a basis you consider favorable to your client. In explaining his reasons, the IRS makes it clear that that there is a misunderstanding of both the applicable law and the applicable facts in your favor. What are you ethically obliged to do? Be explicit in your answer.

11. Your neighbor tells you that she has a financial offer for you. She is in the business of selling financial planning packages for the do it yourself. She now would like to offer her clients the opportunity to review their estate plan with a tax professional after she sells them the kit. She wants to send her clients to you. You would review the kit in advance and endorse the kit on an individual basis. Any personal consultation thereafter would be between you and the client. Any problems ethically? Explain your answer.

12. You have been asked to review your firm's fee agreement regarding refund matters. The agreement states that the firm charges a minimum of $500.00 for any matter undertaken and is to receive one half its regularly charged hourly rate in all cases plus a 25% rate for all moneys refunded due to the firm's efforts. Please prepare the answer in memo form for the managing partner as to your opinion and review.

13. You have been asked to appear on local television as tax advisor where people call in with tax questions which you answer. Whenever you appear there will be an overprint with your name and phone number and the statement, "Available for consultation at a reasonable fee call for an appointment". Explain all of the ethical considerations that this scenario presents.

14. The Gray Panthers are a lobby group for senior citizens that wants to hire you as a tax expert to promote legislative changes to allow for tripling the current standard deductions for old age. They feel that the current levels do not allow for the realistic financial needs of seniors and a tripling would be more realistic as to the needs of seniors to survive in today's economy. Do you have any ethical problems in doing so. Please explain your answer.

15. Darrel Raspberry has been a client of your tax compliance service for six out of the last eight years. The only two years you did not do his returns were the years that he under reported and was convicted for doing so. He wants you to do his returns for the current tax year at the same rate that you have charged in the past. When you did his returns there was no audit or claim by the IRS that he had under reported his income. How do you answer Darrel when he asks you to do this year's return. Please explain your answer in detail including your reasoning.

16. At audit of a corporate client you are asked by the agent to supply the case citations that support your client's stated position. You do so but purposely omit adverse controlling cases. Have you violated any ethical rules or standards ?

17. Jim and Jane Buffet filed a joint 1040 for 1994 by themselves. They have engaged you to represent them at audit. The day before the meeting with the IRS Jane tells you that she and Jim have separated and will be divorced. There will be no reconciliation. What do you do and what are your duties to Jane, Jim and the IRS. Explain your answer.

18. Your client tells you that she wants to take deductions that you consider very questionable. She then asks you what her chances of getting caught are and you answer honestly. The client decides to go ahead and asks you to prepare the return. You do so.

You tell your client that you have prepared the return but refuse to sign it because of the deductions. Please explain the ethical considerations in this scenario.

19. While representing a client at audit whose return you did not prepare, the IRS agent shares with you that he has never encountered the particular issue under examination and goes on to prove it. He calculates the tax due correctly but affords your client a passive loss that is unusable in the current year. Thus, it can be used in succeeding years against passive gains. You believe this to be an incorrect determination but it in no way does it impact on the current year under audit. What do you do in the current year as to this audit and what about next year when you are engaged to do the return that absolutely will encompass net passive gains.

20. A very good and long standing client has come to you to do the current year return. She informs you that she had three years ago invested in a company that became insolvent. You then ask the client for details on the investment and on the company. She in turn gives you a glossy brochure indicating the background history of the company and says that this is everything she has or can obtain on the company. The client further informs you that the stock broker that put her into the investment-whom she trusts explicitly-has informed her that the company went belly up in the current year and the stock is now worthless. You are pressed for time to get the return done and the client is insistent that you take the deduction for the worthless company's stock. What do you do and why?