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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
First Quarter (January - March), 2008; Course #0801
 Recommended CPE Credit - 7 hours (Exceptions noted on next page)

Name _____
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To which state board(s), agencies, or associations do you report CPE?

INSTRUCTIONS:

1. 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.
2. Mail, email or fax **only** the answer sheet for grading.
3. Please include payment by check, Visa, or MasterCard. Print our Payment voucher to accompany your exam: <http://www.accounting-education.com/paymentvoucher.pdf>
4. *Please provide your fax number above. We plan to fax your graded exam back to you instead of mailing, unless you object, resulting in faster response to you. Thanks!*

COURSE EVALUATION:

On a scale of A (highest) to F (lowest), please evaluate the following:

- ____ 1. How well did the course meet its stated learning objectives?
- ____ 2. How well did the program materials help in achieving the learning objectives?
- ____ 3. How did you like using our Web site?
- ____ 4. How timely was the course content?
- ____ 5. How relevant was the course content?

Finally, what was your estimated completion time? _____ 50-minute hours.

Please leave this space for our Certificate of Completion

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Date Completed: _____

For CPE credit, this exam must be completed by March 31, 2010.

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Our **Quarterly CPE Exams on the *Journal of Accountancy*** can help you in your continuing education. This is a series of quarterly formal self-study programs that can be completed in your home or office without the inconvenience and high costs associated with many CPE courses.

OBJECTIVE:

The objective is to enable participants to enhance their technical proficiency by gaining a better understanding of current developments in accounting. Completing the exam helps reinforce the concepts presented in leading professional accounting journals. The constant stream of new releases of accounting, auditing, and tax information has intensified the accountant's need to stay abreast of changes in the accounting profession. Our programs help the accountant remain current.

COURSE SPONSOR:

Accounting Education Associates (AEA) has offered **Quarterly CPE Exams** on the *Journal of Accountancy* since 1982. James H. Ogburn prepares the courses. In addition to working in public accounting and finance, his experience includes 18 years teaching accounting at the University of North Carolina at Greensboro, as well as serving as Assistant Director of Graduate Programs in Accounting and Business, and 26 years of experience in developing CPE courses for CPAs. AEA is not affiliated with the AICPA that holds the copyright to the *Journal of Accountancy*.

HOW TO CONTACT AEA:

Telephone: 1-800-CPE-EXAM (1-800-273-3926)

Email: info@accounting-education.com

Fax: 1-800-645-1099

Address (physical and mailing):

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Greensboro, NC 27408-3113

Please provide your fax number on your answer sheet page. We plan to fax your graded exam back to you (instead of mailing) unless you object, resulting in faster response to you.

Please notify AEA of changes to your mailing address.

ESTIMATED COMPLETION TIME:

The estimated average completion time to read three monthly journal issues and to complete our **Quarterly CPE Exam on the *Journal of Accountancy*** is 14 hours. These estimates are based on pre-tests and 50-minute hours.

RECOMMENDED CPE CREDIT:

We recommend CPE credit of seven (7) hours, one-half of the estimated completion time of 14 hours.

Exceptions: Certain state boards (e.g., **Arizona, Georgia, Kentucky, and Ohio**) grant CPE credit of 100% of estimated completion time for formal self-study courses (i.e., 14 hours for each **Exam** on the *Journal of Accountancy*). Please check with your state board for further guidance.

PROGRAM SPONSOR AGREEMENTS:

AEA has sponsor agreements with the following state boards: **AL, HI (#4007), IL (#158-000242), IN (#CE92-000158), KY, OH (#CPE.20), PA (#PX00005-L), and TX (#000211)**. The IBCFP and many but not all state boards of accountancy accept AEA's courses. We do not have a sponsor agreement with the IRS, NASBA or QAS.

SUBJECT DIVISIONS OF CPE CREDIT:

The following subject division for each **Quarterly CPE Exam on the *Journal of Accountancy*** is suggested for states requiring CPE credit in specific areas: Accounting & Auditing: 4 hours; Tax: 2 hours; Other: 1 hour.

COURSE NUMBER: #0801 (For those states requiring a "course number," we assign a number derived from the year and quarter.)

PRICES:

The price of a **Quarterly CPE Exam** is \$39, with lower prices when an order involves four or more courses:

Price per course for orders of 1 to 3 courses:	\$39
Price per course for orders of 4 to 7 courses:	\$36
Price per course for orders of 8 to 23 courses:	\$33
Price per course for orders of 24 to 49 courses:	\$30
Price per course for orders of 50 or more:	\$27

Checks, Visa, and MasterCard are accepted as payment.

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To ensure uninterrupted service and to remind yourself to conveniently earn your CPE credit throughout the year, subscribe today! Annual subscriptions are \$144 (or \$132 when you order at least two subscriptions). Just tell us your "start quarter." We'll send you "tracking numbers" for you to write on exams that you print at our website.

Quarterly CPE Exam on the *Journal of Accountancy* – First Quarter 2008

OBJECTIVES:

- > To identify significant accounting changes that have been issued recently or are being considered by the FASB and are being considered by other sources.
- > To assess the impact of potential accounting changes on financial statements.
- > To identify significant tax developments.
- > To identify recent developments in management cost accounting and systems.
- > To identify other significant developments affecting the accounting profession.

DESCRIPTION:

This course is designed to cover recent and potential changes in accounting principles and practices and their effects on financial statements. This course is classified at the “Update” level.

REQUISITE KNOWLEDGE AND EXPERIENCE:

This course is designed for participants who are well versed in the general application of accounting pronouncements. They should have a genuine interest in how current thinking might effect change and should be knowledgeable of generally accepted accounting principles and tax regulations.

MAJOR TOPICAL COVERAGE:

This **Quarterly CPE Exam** examines:

- > Significant recently issued accounting pronouncements.
- > Significant alternative accounting principles and theories being considered or developed.
- > The potential effects of any changes on financial statements and disclosures.
- > The effects of recent tax developments.
- > Latest information involving management cost systems.

The major topical coverage of this course will correspond to the content of the issues of the *Journal of Accountancy* for the months covered by this Exam.

QUESTIONS 1 - 18 RELATE TO THE *Journal of Accountancy* OF JANUARY 2008

DONOR-ADVISED FUNDS: PREPARING FOR CLOSER SECURITY (P. 28)

1. In a donor-advised fund, a gift is first considered complete when:
 - a. The donor transfers an asset to a donor-advised fund at a charitable fund or foundation.
 - b. The ultimate disposition of the gift is made by the donor-advised fund.
 - c. Either a or b.
 - d. None of the above.
2. True/False? Donors are prohibited from designating children as successor advisers to a donor-advised fund.
 - a. True.
 - b. False.

LIFE INSURANCE: WHAT’S IT WORTH? (AND WHO SAYS?) (P. 32)

3. If the donee intends to hold a donated life insurance policy as an investment rather than to cash it in, the donor may generally deduct the policy’s:
 - a. Fair market value.
 - b. Cash surrender value.
 - c. Face value.
 - d. Amount of future premiums that would be paid to maintain the policy.
 - e. None of the above.

4. Which of the following are required to file Form 8283, *Noncash Charitable Contributions*, to deduct more than \$500 involving life insurance or other property?
 - a. C and S corporations.
 - b. Partnerships.
 - c. Individuals.
 - d. All of the above.
 - e. None of the above.

5. To be deductible, the Pension Protection Act of 2006 requires qualified appraisals of charitable contributions of artwork of _____ or more.

a. \$500	d. \$25,000
b. \$5,000	e. \$50,000
c. \$20,000	

6. A CPA who does not retain a fully qualified appraiser risks:
 - a. Losing the ability to practice before the IRS for three years.
 - b. Paying a penalty of as much as 10% of the tax underpayment or 125% of the fee received for the appraisal, whichever is less.
 - c. Both a and b.
 - d. Neither a nor b.

RISK ASSESSMENT STANDARDS IN ACTION (P. 41)

7. Auditors are required to:
 - a. Document their understanding of internal controls.
 - b. Evaluate the design of controls.
 - c. Determine whether the controls have been implemented.
 - d. A, b and c.
 - e. A and b but not c.

8. True/False? The new standards require risk assessment at the assertion level.

a. True.	b. False.
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9. Which of the following steps should be completed only *after* the risk assessment meeting?
 - a. Obtaining an understanding of the entity's internal control.
 - b. Making inquiries of management and others keeping the renewed focus on risks.
 - c. Obtaining an understanding of the entity, and using that understanding to identify risk.
 - d. Performing preliminary analytical procedures to identify the risk areas and identify the risk areas that can be de-emphasized.
 - e. None of the above.

10. True/False? The new standards prohibit combining the audit team meeting to discuss fraud with the meeting of the audit team to discuss all risks of material misstatement.

a. True.	b. False.
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11. To keep the focus of the audit on the true risks of material misstatement, the auditor should employ a _____ approach during the internal control evaluation process.

a. Top-down	c. Holistic
b. Bottom-up	d. Detail-focused

MASTERING THE PAYMENT CARD INDUSTRY STANDARD (P. 50)

12. Businesses of all sizes that accept credit cards as payment and those that process card transactions must meet the requirements of the Payment Card Industry Data Security Standard:
 - a. Because compliance is required by law.
 - b. As a condition for doing business with any of the five major payment card networks.
 - c. Both a and b.

13. Which of the following is an unsound practice for processing cards?
 - a. Maintaining a firewall configuration for wireless and Internet-facing connections.
 - b. Updating antivirus software.
 - c. Securely developing systems and applications.
 - d. Retaining all cardholder data after transactions are authorized.
 - e. Protecting data when stored, processed or transmitted.

MAKE TAX RESEARCH LESS TAXING (P. 64)

14. Which of the following tax research services does *not* provide citators?
- a. CCH.
 - b. BNA.
 - c. LexisNexis.
 - d. RIA.
15. Which of the following tax research services offers neither citators nor treatises?
- a. CCH.
 - b. BNA.
 - c. LexisNexis.
 - d. RIA.
 - e. Tax Analysts.
16. Which of the following tax research services has a thesaurus that runs in the background on every keyword search?
- a. CCH.
 - b. BNA.
 - c. LexisNexis.
 - d. RIA.
 - e. Tax Analysts.

TAX MATTERS (P. 72)

17. Which of the following factors led to the Ninth Circuit Court of Appeals' decision that the payments in *Commissioner vs. John Michael Dunkin* were *not* alimony?
- a. The ex-spouse lived in the same household with the payee.
 - b. The payments were designated as child support.
 - c. The payments were to continue to the payee's estate if she died while the payor remained employed by the police department.
 - d. A, b and c.
 - e. A and b but not c.
18. Which of the following factors led to the Tax Court's decision that the payments in *Neil Jerome Proctor v. Commissioner* were alimony?
- a. A divorce agreement required Proctor to make cash payments to Holdman.
 - b. Holdman and Proctor did not share the same household.
 - c. The payments were not designated as child support.
 - d. A, b and c.
 - e. A and b but not c.

QUESTIONS 19 – 36 RELATE TO THE *Journal of Accountancy* OF FEBRUARY 2008

CHANGE AGENT (P. 30)

19. True/False? According to Robert Herz, the approach being taken by a major joint FASB/IASB project dealing with lease accounting is on a rights-and-obligations approach.
- a. True.
 - b. False.

SIX STEPS TO XBRL (P. 34)

20. Of the following, which is the final step in translating a financial statement into tagged format?
- a. Setting up the entity profile.
 - b. Exporting the data.
 - c. Validating data and calculations.
 - d. Marking up the data.
 - e. Downloading the taxonomies.
21. According to SEC XBRL voluntary program statistics, which of the following was the most often used tagging software?
- a. EDGARizer.
 - b. CoreFiling Ltd.
 - c. EDGAR Online I-Metrix.
 - d. Dragon Tag.
 - e. Fujitsu Interstage XWand.

DEEPENING INSOLVENCY: AN EMERGING THREAT (P. 40)

22. True/False? In deepening insolvency cases, damages are generally limited to actual losses that the plaintiff suffers.
- a. True.
 - b. False.
23. Which of the following cases appear(s) to have been a blow to deepening insolvency?
- a. *Official Comm. Of Unsecured Creditors v. R. F. Lafferty & Co.*
 - b. *Trenwick America Lit. Trust v. Ernst & Young LLP et al.*
 - c. Both a and b.
 - d. Neither a nor b.

24. In *Julia A. Christians, Trustee for the Bankruptcy Estate of Technimar Industries Inc. v. Grant Thornton LLP*, the court of appeals:
- Recognized deepening insolvency as a damage theory.
 - Ruled that the trustee established causal nexus between the actions of the auditors and the alleged damages.
 - Ruled that the accumulation of debt was evidence of damages.
 - All of the above.
 - None of the above.
25. In *Stoneridge Investment Partners LLC v. Scientific-Atlanta Inc., et al*, the U.S. Supreme Court ruled that:
- Scientific-Atlanta and Motorola were only secondary parties.
 - Secondary parties can't be held liable when the companies they work with mislead investors.
 - Both a and b.
 - Neither a nor b.

PARTNERSHIPS FOR COMMUNITY DEVELOPMENT (P. 54)

26. Which of the following entity forms does the author generally prefer for a community development partnership?
- C corporation.
 - S corporation.
 - LLC.
 - Partnership.
 - None of the above.
27. In community development partnerships, partners with _____ balances in their capital accounts are subject to qualified income offset.
- Negative
 - Positive
 - Either a or b
 - Neither a nor b
28. Under FASB Statement no. 144, *Accounting for Impairment or Disposition of Long-Lived Assets*, impairment losses incurred _____ should be reported as part of income from continuing operations before income taxes.
- While a project is under development
 - After a project is completed
 - Either a or b
 - Neither a nor b

DISCOVER THE POWER OF EXCEL 2007 (P. 60)

29. In Office 2007's Excel, the Open, Save, Print, etc. commands are found:
- In the File menu.
 - By clicking on the Office Button on the Ribbon.
 - By clicking on the Internet Explorer.
 - By clicking on Tools.
30. Excel 2007 and other Office 2007 applications only run on the Vista operating system.
- True.
 - False.

REAL TAX SAVINGS IN REAL ESTATE (P. 68)

31. Which of the following criteria must a taxpayer meet to qualify as a "materially participating real estate professional?"
- Performing more than 50% of ones personal services in real property trades or businesses in which one materially participates in a given year.
 - Performing more than 750 hours of service during the tax year in real estate property trades or businesses in which one materially participates.
 - Both a and b.
 - Neither a nor b.
32. A materially participating real estate professional may offset _____ with net rental real estate losses.
- Wages
 - Investment earnings
 - Other sources of taxable income
 - A, b and c
 - A and b but not c
33. A taxpayer who can demonstrate "active participation" and has modified adjusted gross income of \$130,000 may be eligible for a special loss allowance of up to:
- \$0.
 - \$10,000.
 - \$12,500.
 - \$15,000.
 - \$25,000.

34. An election under IRC Section 469 (c) (7) (A) to group all interests in rental real estate activities into a single activity:
- Is made by filing an attachment to the taxpayer's original income tax return for the year for which the election is effective.
 - Is effective for all subsequent years.
 - Cannot be revoked.
 - A, b and c.
 - A and b but not c.
35. When a taxpayer makes the Section 469 (c) (7) (A) election, losses from fully taxable dispositions can:
- Be taken in the year of disposition.
 - Only be taken if "substantially all" of the taxpayer's interest in the activity is disposed of.
 - Only be used to offset gains from dispositions of similar assets.
 - None of the above.

TAX MATTERS (P. 74)

36. In _____, the taxpayer(s) failed the 50% test.
- | | |
|--|--------------------|
| a. <i>Carolyn D. Fenderson v. Commissioner</i> | c. Both a and b |
| b. <i>Gregory J. Jarris v. Commissioner</i> | d. Neither a nor b |

QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF MARCH 2008

ASSISTING TROUBLED BUSINESS CLIENTS: A MIDSIZE DILEMMA FOR CPAS (P. 34)

37. Which of the following acts is (are) likely to impair a CPA's independence?
- Making a decision to expend the resources to turn the company around.
 - Alerting the audit client that a declining trend in sales could threaten the company's future.
 - Assessing causes for stagnant growth.
 - All of the above.
 - None of the above.
38. Which of the following acts is (are) likely to impair a CPA's independence?
- Assisting in developing a corrective action plan.
 - Recommending targets for revenues as well as for variable and fixed costs.
 - Becoming part of the decision-making turnaround team.
 - All of the above.
 - None of the above.

VOLUNTARY DISCLOSURE TO THE IRS: A VIABLE OPTION (P. 40)

39. Which of the following steps must the taxpayer take when making a voluntary disclosure to the IRS?
- The taxpayer must file complete returns.
 - The taxpayer must make full payment of taxes.
 - Both a and b.
 - Neither a nor b; the taxpayer must merely assure the IRS that the return and payment will be forthcoming.
40. True/False? Voluntary disclosure treatment is available to a taxpayer who is the subject of a civil or criminal investigation.
- | | |
|----------|-----------|
| a. True. | b. False. |
|----------|-----------|
41. True/False? Voluntary disclosure treatment is available to protect a taxpayer whose unreported income was from an illegal source.
- | | |
|----------|-----------|
| a. True. | b. False. |
|----------|-----------|

ARE YOUR ESO VALUES ON TARGET? (P. 44)

42. Which of the following option valuation models does FASB Statement no. 123 (R) specifically prescribe?
- A lattice model.
 - A closed-form model.
 - Either a or b.
 - Neither a nor b.
43. Which of the two models is "clearly more appropriate to use to value employee stock options?"
- | | |
|---------------------|-------------------------|
| a. A lattice model. | b. A closed-form model. |
|---------------------|-------------------------|

44. Any dilution from the issuance of employee stock options affects the value of:
- The common shares.
 - The employee stock options.
 - Both a and b.
 - Neither a nor b.

ALLOCATING VALUE AMONG DIFFERENT CLASSES OF EQUITY (P. 50)

45. Which of the following three methods for allocating value between preferred and common equity is most difficult to apply because of the high level of subjectivity?
- Current Value Method.
 - Probability Weighted Expected Return Method.
 - Options-Pricing Model.
46. Which of the following methods relies (rely) on the Black-Scholes-Merton model?
- Current Value Method.
 - Probability Weighted Expected Return Method.
 - Options-Pricing Model.
 - A, b and c.
 - A and b but not c.
47. In the comprehensive example of XYZ in the article, the Options-Pricing Model allocated the smallest dollar amount of equity to XYZ's:
- Convertible debt.
 - Preferred A shares.
 - Preferred B shares.
 - Common shares.
 - Options.
48. Which of the following is *not* one of the four steps suggested in applying the options-pricing method?
- Understanding the capital structure.
 - Allocating value to each class of equity.
 - Determining probabilities of various exit scenarios and the value of the business at such events.
 - Determining the business value and Black-Scholes assumptions.
 - Setting the strike prices for different classes of equity.

TAKE YOUR NEW TEAM TO THE TOP (P. 58)

49. A clear vision of the finance team should be communicated to:
- The finance team.
 - Key stakeholders outside of the finance team.
 - Key competitors of the firm.
 - A, b and c.
 - A and b but not c.

TAX MATTERS (P. 69)

50. In *Estate of Frazier Jelke III v. Commissioner*, the Eleventh Circuit Court of Appeals:
- Allowed a valuation discount of 100% of the estate's built-in capital gains tax.
 - Based the contingent tax liability and resulting discount on an assumed immediate liquidation of the decedent's interest in a closely held investment holding company.
 - Both a and b.
 - Neither a nor b.

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Please complete the course evaluation on the first page. Your comments and referrals are appreciated.

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