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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Second Quarter (April - June), 2008; Course #0802
 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 June 30, 2010.

* To print a handy Payment remittance form to fax with your answer sheet, use this link:
<http://www.accounting-education.com/paymentvoucher.pdf> (Checks, Visa or MC only)

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
(Can be used to scan and email exams.)

Fax: 1-800-645-1099

Mailing and physical address:
1809 Worsham Place
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: #0802 (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* – Second 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 APRIL 2008

NEWS DIGEST (P. 23)

1. The PCAOB’s Auditing Standard no. 6, *Evaluating Consistency of Financial Statements*, and related amendments:

- a. Update the auditor’s responsibilities to evaluate and report on the consistency of a company’s financial statements.
- b. Align the auditor’s responsibilities with SFAS no. 154, *Accounting Changes and Error Corrections*.
- c. Both a and b.
- d. Neither a nor b.

2. According to David M. Walker, the United States’ biggest long-term “fiscal challenge” relates to:

- a. Health care.
- b. Ethical values.
- c. Work ethic.
- d. Illegal immigration.
- e. Education.

SMART STOPS ON THE WEB (P. 30)

3. Which of the following Web sites provides leadership education and advanced training in finance and management?
- a. www.tinyurl.com/2g7bwv
 - b. www.marketingsherpa.com
 - c. www.calcpa.org/forum
 - d. www.mint.com
 - e. www.legalmarketingblog.com

BETTER EVIDENCE GATHERING (P. 32)

4. True/False? Auditors should consider making a telephone call to verify the legitimacy of a faxed confirmation.
- a. True.
 - b. False.
5. Auditors generally choose to send _____ requests to confirm large receivable balances.
- a. Negative
 - b. Positive
6. An auditor's use of an online inquiry about a client's bank balance information constitutes a(n):
- a. Alternative procedure.
 - b. Confirmation procedure.
 - c. Both a and b.
 - d. Neither a nor b.

ADVISING PRIVATE FOUNDATIONS (P. 36)

7. In a donor-advised fund, the donor exercises _____ over the donated funds.
- a. Full control
 - b. Variance powers
 - c. Both a and b
 - d. Neither a nor b
8. Which of the following is (are) subject to excise taxes on net investment income?
- a. Private foundations.
 - b. Donor-advised funds.
 - c. Both a and b.
 - d. Neither a nor b.
9. Deductible cash contributions to donor-advised funds are limited to _____ of a taxpayer's AGI.
- a. 20%
 - b. 30%
 - c. 40%
 - d. 50%
 - e. 60%
10. The deduction for long-term capital gain property, other than publicly traded securities, contributed to a _____ is limited to the donor's basis in the property.
- a. Private foundation
 - b. Donor-advised fund
 - c. Either a or b
 - d. Neither a nor b

RISING EXPECTATIONS (P. 44)

11. True/False? Proponents of enterprise risk management (ERM) stress that the goal of effective ERM is to lower risk.
- a. True.
 - b. False.
12. The majority of financial institutions participating in Deloitte's *Global Risk Management Survey* place responsibility for risk management with the:
- a. Board of Directors.
 - b. CEO.
 - c. CFO.
 - d. CRO.
 - e. None of the above.
13. Of the following two approaches, ERM focuses more on risks:
- a. Associated with individual functions or business units.
 - b. Affecting the company as a whole.
14. The internal auditing department should be involved in:
- a. Making decisions on risk response.
 - b. Imposing risk management processes.
 - c. Developing the risk management process for board approval.
 - d. All of the above.
 - e. None of the above.

TAX PRACTICE CORNER (P. 72)

15. In *Estate of Concetta H. Rector et al v. Commissioner*, the estate was successful in demonstrating that the family limited partnership effectively:
- a. Diversified assets.
 - b. Protected assets from creditors.
 - c. Both a and b.
 - d. Neither a nor b.

TAX MATTERS (P. 74)

16. In *J. Ramsey and Elizabeth Farah v. Commissioner*, the taxpayers were successful in using Section 121 to exclude gains from the sale of:

- a. A dwelling originally held as a vacation home.
- b. A lot adjacent to the vacation home.
- c. Both a and b.
- d. Neither a nor b.

17. In *Charles E. Trantina v. U.S.*, the Ninth Circuit concluded that:

- a. The termination payments were made in exchange for the agreement with State Farm.
- b. The payments were subject to capital gains tax.
- c. Both a and b.
- d. Neither a nor b.

FROM *The Tax Adviser* (P. 82)

18. Under the new regulations, tax return preparers must obtain taxpayer consent before:

- a. Disclosing any tax return information to a third party or using it for any purpose other than filing the return.
- b. Sending tax return information to another preparer outside the United States.
- c. Sending tax return information to another preparer inside the United States.
- d. A, b or c.
- e. A or b but not c.

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

THE ROLE OF FAIR VALUE ACCOUNTING IN THE SUBPRIME MORTGAGE MELTDOWN (P. 34)

19. According to FASB Statement no. 157, *Fair Value Measurements*, level _____ inputs generally involve quoted prices in active markets.

- a. 1
- b. 2
- c. 3

20. Under fair value accounting, assets can be:

- a. Written down, thus reducing reported net income.
- b. Written up, thus increasing reported net income.
- c. Either a or b.
- d. Neither a nor b.

FRAMING THE FUTURE (P. 40)

21. By April of 2009, the FASB plans for _____ to comprise GAAP.

- a. The original pronouncement
- b. Accounting standards *Codification*

22. True/False? The FASB's *Accounting Standards Codification* will dramatically change GAAP's content.

- a. True.
- b. False.

23. After the codification process is implemented, the primary way for accountants to access GAAP will be:

- a. Books.
- b. CDs.
- c. Loose-leaf services.
- d. Online access.
- e. None of the above.

24. In the Codification, which level will contain substantive content?

- a. Section.
- b. Paragraph.
- c. Topic.
- d. Subtopic.
- e. None of the above.

A GLOBAL STANDARD FOR PROFESSIONAL ETHICS (P. 46)

25. True/False? The SEC currently permits foreign private issuers to include financial statements prepared under IFRS in SEC filings.

- a. True.
- b. False.

26. The IFAC *Code of Ethics* applies to professional accountants in:

- a. Public practice.
- b. Business.
- c. Academia.
- d. Government.
- e. All of the above.

27. Compared to the IFAC *Code of Ethics*, the AICPA's code is:

- a. More restrictive.
- b. More rules-based.
- c. Both a and b.
- d. Neither a nor b.

28. True/False? Under the PEEC proposal, where a network of auditors exists, all of the firms in the network must be independent of each other's audit and review clients.

- a. True.
- b. False.

SECURITIZED PROFITS (P. 54)

29. FASB Statement no. 140 provides guidance for which of the following types of loan sales?

- a. Whole loan sales.
- b. Loans that are securitized and accounted for as sales.
- c. Loans that are securitized and accounted for as financings.
- d. A, b and c.
- e. A and b but not c.

30. In which of the following transactions are gains and losses recognized?

- a. A transaction in which a loan sale is accounted for as a financing.
- b. A transaction in which loans are securitized and accounted for as a financing.
- c. Both a and b.
- d. Neither a nor b.

31. Which of the following have a secondary market?

- a. Mortgage servicing rights.
- b. Retained interests.
- c. Both a and b.
- d. Neither a nor b.

POST-TRANSACTION ADJUSTMENTS (P. 66)

32. A U.S. company that makes a post-transaction adjustment:

- a. Makes the change in its U.S. books and deals with the IRS.
- b. Makes the adjustment for foreign tax purposes.
- c. Both a and b.
- d. Neither a nor b.

NOW'S THE TIME TO COMPLY WITH NQDC REGS (P. 70)

33. The new NQDC rules apply to:

- a. Supplemental executive retirement plans.
- b. Short-term deferrals.
- c. Qualified retirement plans.
- d. A, b and c.
- e. A and b but not c.

TAX PRACTICE CORNER (P. 82)

34. In *Randall L. Sindelir v. Commissioner*, the alimony deduction was denied because:

- a. The payments were in property.
- b. There was no written agreement.
- c. Both people lived in the same household.
- d. The payments were designated as something other than alimony.
- e. None of the above.

TAX MATTERS (P. 86)

35. In *Glenn Hightower v. Commissioner*, the taxpayer was successful in his contention that:

- a. The gain escaped tax under the claim-of-right doctrine until 2003.
- b. The pass-through income was not taxable in 2000 because of his restricted management role from 1998 to 2000.
- c. Both a and b.
- d. Neither a nor b.

FROM *The Tax Adviser* (P. 92)

36. For a 2% shareholder in an S corporation to deduct health insurance premiums above the line:
- The premiums must have been paid under a plan that is established by the S corporation.
 - The S corporation must include the premium payments in the employee's Form W-2 for the tax year in which they are paid.
 - The shareholder must report the W-2 wages as income on Form 1040.
 - All of the above.
 - None of the above.

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

A NEW DAY FOR BUSINESS COMBINATIONS (P. 34)

37. The new FASB Statement no. 141 (revised), *Business Combinations*, is effective for fiscal years beginning after:
- June 15, 2008.
 - September 15, 2008.
 - December 15, 2008.
 - March 15, 2009.
 - June 15, 2009.
38. Under the new FASB statement, a minority interest will be considered:
- A liability.
 - A mezzanine item.
 - Stockholders' equity.
 - Any of the above.
 - A or b but not c.
39. Under the new FASB statement, displayed earnings-per-share results will be based on income attributable to:
- Controlling interest stockholders.
 - Noncontrolling interest stockholders.
 - Both a and b.
 - Neither a nor b.
40. The new approach will use full fair values for _____ to record transactions.
- Debits
 - Credits
 - Both debits and credits
 - Neither debits nor credits
41. True/False? Under the new approach, an acquirer would recognize a gain (net of tax) from a bargain purchase in which the acquired value is greater than the purchase price.
- True.
 - False.
42. Under the new approach, _____ acquisition expenses will be deferred by adding them to the purchase price.
- Direct
 - Indirect
 - Both a and b
 - Neither a nor b
43. The new standard requires buyers to:
- Assign values to in-process research and development assets and classify them as intangible assets.
 - Immediately write off in-process research and development costs.
 - Both a and b.
 - Neither a nor b.
44. True/False? Under the new standard, the acquirer will preserve the original book value of each investment in a step acquisition.
- True.
 - False.

VIRTUES AND EVILS OF LIFE SETTLEMENT (P. 40)

45. Based on the Tax Court's decision in *Jules J. Reingold*, a taxpayer who receives a life settlement in excess of federal income tax basis should expect which of the following three options?
- No tax liability.
 - Ordinary income treatment.
 - Capital gain treatment.

