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**QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition***  
**Third Quarter (July - September), 2008; Course #0803**  
 Recommended CPE Credit - 7 hours (Exceptions noted on next page)

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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!*

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

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**For CPE credit, this exam must be completed by September 30, 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  
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**Fax:** 1-800-645-1099

Mailing and physical address:

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*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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## **Quarterly CPE Exam on the *Journal of Accountancy* – Third 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 JULY 2008**

### **CHECKLIST: INVESTING DOS AND DON'TS FOR THIS (AND EVERY) MARKET CYCLE (P. 27)**

1. Examples of “satellite” asset classes include:
  - a. Commodities.
  - b. Non-U.S. currencies.
  - c. Municipal bonds.
  - d. A, b and c.
  - e. A and b but not c.

### **WEALTH HARVESTING: MORE THAN JUST RETIREMENT OR SUCCESSION PLANNING (P. 28)**

2. According to Johnson and Saccacio, the first step in developing a wealth harvesting plan is to:
  - a. Determine the total amount of wealth involved.
  - b. Separate embedded gains into their long-term and short-term components.
  - c. Identify the client’s departure objectives.
  - d. Assemble a professional team with the requisite tax, legal and financial skills.
  - e. Sell the company.

3. A buy-sell agreement:
  - a. Defines who is allowed to purchase a departing shareholder's share of the business and at what cost.
  - b. Defines what events will trigger a buyout.
  - c. Protects the business from the consequences of the owner's and spouse's deaths.
  - d. A, b and c.
  - e. A and b but not c.
  
4. Which of the following two types of grantor trusts provides a tax-efficient way to transfer ownership to *multiple* generations?
  - a. A grantor retained annuity trust.
  - b. An intentionally defective grantor trust.

#### **WATCH OUT FOR PRIVATE ANNUITIES (P. 34)**

5. Under proposed regulations, the realized gain resulting from the exchange of property for a private annuity:
  - a. Would be recognized at the time of exchange of property other than money for an annuity contract.
  - b. Could be recognized over the taxpayer's remaining life expectancy.
  
6. True/False? When a property transfer is part sale and part gift, all of the adjusted basis can be allocated to the sale portion, thus reducing or eliminating any gain.
  - a. True.
  - b. False.
  
7. True/False? The proposed regulations ban the deferral of gain associated with installment sales.
  - a. True.
  - b. False.

#### **CURRENCY TRANSLATION ADJUSTMENTS (P. 42)**

8. The currency translation adjustment (CTA) detail may appear:
  - a. As a separate line in the equity section of the balance sheet.
  - b. In the statement of shareholders' equity.
  - c. In the statement of comprehensive income.
  - d. Any of the above.
  - e. A and b but not c.
  
9. When transactions are denominated in a foreign currency, the effect of a weakening dollar on exported goods is a transaction \_\_\_\_\_.
  - a. Gain
  - b. Loss
  
10. When transactions are denominated in a foreign currency, the effect of a strengthening dollar on imported goods is a transaction \_\_\_\_\_.
  - a. Gain
  - b. Loss
  
11. When accounting records are kept in a foreign currency, the effect of a strengthening dollar on companies in a net asset position is a translation \_\_\_\_\_.
  - a. Gain
  - b. Loss
  
12. When accounting records are kept in a foreign currency, the effect of a strengthening dollar on companies in a net liability position is a translation \_\_\_\_\_.
  - a. Gain
  - b. Loss

#### **CAPITAL WITH A CONSCIENCE (P. 54)**

13. Which of the following investments are subject to jeopardy investment restrictions?
  - a. Program-related investments.
  - b. Mission-related investments.
  - c. Both a and b.
  - d. Neither a nor b.
  
14. With which of the following investments is invested principal subject to the 5% minimum investment return calculation?
  - a. Program-related investments.
  - b. Mission-related investments.
  - c. Both a and b.
  - d. Neither a nor b.

### UNLEASH THE POWER OF LEAN ACCOUNTING (P. 60)

15. Which of the following is (are) used in value stream management?
- a. Standard costs.
  - b. Variances.
  - c. Allocations.
  - d. All of the above.
  - e. None of the above.

### TAX PRACTICE CORNER (P. 84)

16. The IRS' safe harbor for purposes of section 1031 exchanges requires:
- a. Ownership of the relinquished property for at least two years immediately before the exchange.
  - b. Ownership of the replacement property for at least two years immediately after the exchange.
  - c. The dwellings be rented to another person or persons at fair market value for at least 14 days.
  - d. A, b and c.
  - e. A and b but not c.

### TAX MATTERS (P. 86)

17. True/False? In *MeadWestvaco Corp. v. Illinois Department of Revenue*, the U.S. Supreme Court affirmed an Illinois Appellate Court's application of the operational function test of the unitary business principle.
- a. True.
  - b. False.

### FROM *The Tax Adviser* (P. 94)

18. Over the last ten years, the IRS has increased its use of:
- a. Liens.
  - b. Levies.
  - c. Asset seizures.
  - d. A, b and c.
  - e. A and b but not c.

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

#### A BETTER WAY TO GAUGE PROFITABILITY (P. 38)

19. Which of the following measures does the original DuPont ROE model not address?
- a. Net profit margin.
  - b. Return on net operating assets.
  - c. Financial leverage.
  - d. Asset utilization.
20. The unique improvement in the *advanced* ROE model is how it measures:
- a. Control of SG&A expenses.
  - b. Control of costs of good sold.
  - c. Gross profit margins.
  - d. The effects of financing decisions.
  - e. The effects of income taxes.
21. Changing the amount of debt affects:
- a. Return on net operating assets.
  - b. The operating assets.
  - c. The profit before interest expense.
  - d. A, b and c.
  - e. None of the above.
22. In the case study presented comparing Target and Costco, Target's higher ROE is a result of:
- a. Higher gross profit margin.
  - b. Higher asset turnover.
  - c. Financing effects.
  - d. Lower SG&A expenses.
  - e. Higher operating margins.

#### LONG-TERM CARE INSURANCE AND TAX PLANNING (P. 44)

23. Long-term care (LTC) insurance benefits are tax-free to the insured for:
- a. Reimbursement of qualified expenses.
  - b. Payments up to a per-diem limit indexed for inflation (\$270 per day in 2008).
  - c. Either a or b.
  - d. Neither a nor b.

24. An individual, age 63, who personally buys LTC insurance (with no business or employment involved) covering himself, a spouse or a dependent:
- Generally is not entitled to any deduction.
  - Can deduct up to \$3,080 (in 2008) above the line (i.e., not subject to the 7.5% AGI floor).
  - Can deduct up to \$3,850 (in 2008) but subject to the 7.5% AGI floor.
  - Can deduct up to \$3,080 (in 2008) but subject to, with other qualified medical expenses, the floor of 7.5% of AGI as an itemized deduction.
  - Can deduct the entire amount with no limitation or exclusion.
25. Self-employed persons who buy LTC insurance for themselves, their spouse or dependents:
- May generally deduct as a trade or business expense premiums of an LTC plan sponsored by their business.
  - Are subject to an annual limit based on the insured's age.
  - Both a and b.
  - Neither a nor b.
26. True/False? LTC insurance is generally allowable as part of a cafeteria plan.
- True.
  - False.

#### MANAGING CORPORATE DIVESTITURE TRANSACTIONS (P. 48)

27. Which of the following steps occurs first in the divestiture process model presented in the article?
- Divestiture preparation.
  - Strategic assessment.
  - Retrospective analysis.
  - Divestiture execution.
  - Divestiture planning.
28. Which of the following is the last step in creating a data room for a divestiture?
- Identifying interdependent functions.
  - Determining the form of the transaction.
  - Developing a disentanglement plan.
  - Populating the data room.
  - None of the above.

#### SUCCESSFULLY NAVIGATING OPEB (P. 54)

29. Under \_\_\_\_\_, reporting entities are required to fund postemployment benefits other than pensions.
- FASB Statement no. 106
  - GASB Statement no. 43
  - GASB Statement no. 45
  - All of the above.
  - None for the above.
30. Which of the following statements require(s) measuring unfunded actuarially accrued liabilities (UAAL) using accrual accounting rather than pay-as-you-go accounting?
- GASB Statement no. 43.
  - GASB Statement no. 45.
  - Both a and b.
  - Neither a nor b.
31. Which of the following statements require(s) the measurement of an actuarially required contribution?
- GASB Statement no. 43.
  - GASB Statement no. 45.
  - Both a and b.
  - Neither a nor b.
32. OPEB may include \_\_\_\_\_ costs.
- Dental
  - Long-term care
  - Sick leave
  - A, b and c.
  - A and b but not c.

#### DEVELOPING A CRM STRATEGY IN YOUR FIRM (P. 68)

33. An effective CRM strategy includes:
- Client intelligence.
  - Formalized business processes.
  - A client-centered culture.
  - A, b and c.
  - A and b but not c.
34. Which of the following steps should occur first in the implementation of a CRM system?
- Designing the business processes.
  - Identifying what technology to use.
  - Identifying how the technology will be used.
  - Identifying where the technology will be used.
  - None of the above.

**TAX MATTERS (P. 84)**

35. In *BB&T Corp. v. U.S.*, the Fourth Circuit Court of Appeals used the \_\_\_\_\_ doctrine in making its decision.
- a. Form-versus-substance
  - b. Economic substance

**FROM *The Tax Adviser* (P. 90)**

36. True/False? The IRS' proposed regulations that implement changes made by the Small Business and Work Opportunity Tax Act of 2007 reflect a move toward a "one preparer per firm" rule.
- a. True.
  - b. False.

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

**NEWS DIGEST (P. 25)**

37. Unvested share-based payment awards that contain nonforfeitable rights to \_\_\_\_\_ dividend or dividend equivalents are participating securities.
- a. Paid
  - b. Unpaid
  - c. Either a or b
  - d. Neither a nor b

**ABUSIVE INSURANCE AND RETIREMENT PLANS (P. 34)**

38. True/False? Under current practice standards, CPAs may *not* prepare a tax return unless they have a reasonable belief that the tax treatment of every position on the return would more likely than not be sustained on its merits.
- a. True.
  - b. False.
39. True/False? Under new standards of return preparation, a CPA may take into account the possibility that:
- a. A return will not be audited by the IRS.
  - b. An issue will not be raised if there is an audit.
  - c. Both a and b.
  - d. Neither a nor b.
40. Penalties for *not disclosing* listed transactions apply to:
- a. Taxpayers.
  - b. Practitioners.
  - c. Both a and b.
  - d. Neither a nor b.

**MANAGING MULTIPLE IDENTITIES (P. 38)**

41. During implementation of identity and access management software, \_\_\_\_\_ auditors should be engaged to review the designed rule set for appropriateness.
- a. Internal
  - b. External
  - c. Both a and b.
  - d. Neither a nor b.
42. Which of the following kinds of user IDs should be eliminated?
- a. Generic.
  - b. Outdated.
  - c. Orphaned.
  - d. A, b and c.
  - e. A and b but not c.

**JOIN THE HUNT (P. 46)**

43. In relational databases, \_\_\_\_\_ require that each record in the two joined tables have a matching record.
- a. Inner joins
  - b. Outer joins
  - c. Both a and b
  - d. Neither a nor b

**HOW REASONABLE IS YOUR ROYALTY? (P. 56)**

44. True/False? The *Georgia-Pacific v. United States Plywood Corp.* case demonstrates that one specific formula can be used to determine a royalty rate.
- a. True.
  - b. False.
45. With which of the following areas is the largest number of *Georgia-Pacific* factors associated?
- a. Market comparable royalties.
  - b. Licensor's policies / potential terms.
  - c. Technology.
  - d. Profitability /financial metrics.
  - e. Hypothetical negotiation.

**TAX PRACTICE CORNER (P. 86)**

46. Which of the following factors would explain why taxpayers in situations similar to Jim and Jean (as described in the example) would benefit from electing out of installment sales?
- Phase out of exemptions.
  - Limitations of itemized deductions.
  - Scheduled increase in regular tax rates.
  - A, b and c.
  - A and b but not c.

**TAX MATTERS (P. 88)**

47. In *Mehdi Taghadoss v. Commissioner*, the tax court found that:
- The corporation was a device to defraud its investors.
  - The taxpayer suffered physical damage to his property.
  - Both a and b.
  - Neither a nor b.
48. In *Thomas H. Holman, Jr., v. Commissioner*, the tax court:
- Ruled that the step transaction doctrine applied where gifts of FLP interests were made six days after the funding of the partnership with stock.
  - Partially denied the taxpayer's discounts for lack of control and marketability of FLP interests.
  - Both a and b.
  - Neither a nor b.

**TOP THINGS TO KNOW ABOUT ROTH 401(K)S (P. 96)**

49. True/False? An individual with taxable income of \$200,000 (including \$140,000 employment compensation) in 2008 may be eligible to contribute to a Roth 401(k) plan.
- True.
  - False.
50. A taxpayer, age 52, with employment compensation of \$30,000 in 2008 may elect to contribute up to \$ \_\_\_\_\_ to his or her Roth 401(k) plan.
- 15,000
  - 15,500
  - 20,000
  - 20,500
  - 30,000

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

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