

Accounting Education Associates
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Fourth Quarter (October - December), 2008; Course #0804

Recommended CPE Credit - 7 hours (Exceptions noted on next page)
CPE Subject Division: 4 Accounting/Auditing; 2 Tax; 1 Management

Please print all information and mark your answers boldly in dark ink. Thanks.

Name _____
Firm _____
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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. *For faster service, please print your email address and fax number above. 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?

You may scan and email your answer sheet to info@accounting-education.com

Please leave this space for our Certificate of Completion

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Date Completed: _____

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

* To print a handy Payment remittance form to fax with your answer sheet, use this link:
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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
Can be used to email scanned answer sheet

Fax: 1-800-645-1099

Mailing and Physical Address:

1809 Worsham Place
Greensboro, NC 27408

For faster response, please provide your email and fax information on your Answer Sheet. Please print all information and mark your answers boldly so that we can read them.

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)**. AEA's courses are accepted by many but not all state boards of accountancy. We do not have a sponsor agreement with the CFP Board, 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: #0804 (For those states requiring a "course number," we assign a number derived from the year and quarter YYQQ.)

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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Receive \$10 for each new customer you refer to us. For every new customer who pays for an exam and mentions your name, we'll send you a check for \$10. It's as simple as that. We welcome any questions by either phone or email.

4. Which of the following cases allowed exclusion treatment for payments to third parties?
 - a. *Foretravel Inc. v. Commissioner.*
 - b. *Max Sobel v. Commissioner.*
 - c. *Pittsburgh Milk.*
 - d. Medicaid rulings (2005-28 and 2008-26).
 - e. *United Draperies.*

5. True/False? In the Medicaid rulings (2005-28 and 2008-26), the fact that the rebate was paid to a third party was a crucial factor in the decision.
 - a. True.
 - b. False.

6. Which of the following cases first established that non-sellers could not exclude a rebate?
 - a. *Foretravel Inc. v. Commissioner.*
 - b. *Max Sobel v. Commissioner.*
 - c. *Pittsburgh Milk.*
 - d. *James Alex v. Commissioner.*
 - e. *United Draperies.*

A SHOWCASE OF TAX RESEARCH (P. 48)

7. Omer and Yetman found that nonprofits are more likely to misreport expenses when:
 - a. Tax rates are higher.
 - b. A nonprofit's tax return is more complex.
 - c. A nonprofit's taxable and tax-exempt activities are more likely to share common expenses.
 - d. A and b but not c.
 - e. A, b and c.

8. True/False? Blouin, Gleason, Mills and Sikes found that decreases in reserves prior to FIN 48 were more frequent for small companies compared to larger companies.
 - a. True.
 - b. False.

DERIVATIVES AND HEDGING: ACCOUNTING VS. TAXATION (P. 54)

9. Which of the following use(s) a fair value approach?
 - a. Financial accounting for derivatives.
 - b. Taxation of derivatives.
 - c. Both a and b.
 - d. Neither a nor b.

10. An entity may account for asset and liability hedges as well as hedges of foreign currency firm commitments as:
 - a. Fair value hedges.
 - b. Cash flow hedges.
 - c. Either a or b.
 - d. Neither a nor b.

11. True/False? For income tax purposes, a sale or other disposition must occur before any gain or loss can be recognized.
 - a. True.
 - b. False.

12. The values of _____ are recorded at the time of execution.
 - a. Put options purchased
 - b. Forward contracts
 - c. Both a and b
 - d. Neither a nor b

XBRL AROUND THE WORLD (P. 62)

13. XBRL:
 - a. Puts reported information into an instantly reusable computer-readable format.
 - b. Changes accounting standards and methods for financial and business reporting.
 - c. Both a and b.
 - d. Neither a nor b.

14. What was the first country to mandate the use of XBRL?
 - a. USA.
 - b. United Kingdom.
 - c. China.
 - d. Canada.
 - e. Japan.

BETTER BRAINSTORMING (P. 70)

15. Which of the following statements is (are) accurate?
- a. SAS no. 99 requires auditors to brainstorm to determine possible fraud risks.
 - b. SAS no. 109 requires auditors to brainstorm to identify causes of potential material misstatements in financial statements.
 - c. Both a and b.
 - d. Neither a nor b.
16. If checklists are used, they should be available to:
- a. All audit team members.
 - b. Only to the brainstorming leader.

REFOCUSING ON RELIABILITY (P. 74)

17. Current SSARS allow CPAs to perform _____ when their independence is impaired.
- a. Reviews
 - b. Compilations
 - c. Either a or b
 - d. Neither a nor b

FROM *The Tax Adviser* (P. 100)

18. IRA distributions that are part of a qualified series of substantially equal periodic payments (SEPPs) made annually to an IRA owner who is less than 59 ½ are exempt from:
- a. The 10% penalty on premature distributions.
 - b. Federal income tax.
 - c. Both a and b.
 - d. Neither a nor b.

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

NONCONTROLLING INTEREST: MUCH MORE THAN A NAME CHANGE (P. 46)

19. FASB Statement no. 160, *Noncontrolling Interests in Consolidated Financial Statements* is effective for fiscal years beginning after:
- a. June 15, 2008.
 - b. September 15, 2008.
 - c. December 15, 2008.
 - d. March 15, 2009.
 - e. June 15, 2009.
20. True/False? Under Statement no. 160, only subsidiary revenues and expenses arising after the date of a midyear combination will be reported on the consolidated income statement.
- a. True.
 - b. False.
21. Under Statement no. 160, noncontrolling interests will be displayed:
- a. Among liabilities.
 - b. In the equity section.
 - c. Between liabilities and equities.
22. Under Statement no. 160, consolidated income statements will present:
- a. Net income for the entire enterprise.
 - b. Allocations to the parent and noncontrolling interest.
 - c. Both a and b.
 - d. Neither a nor b.
23. The result of applying FASB Statement no. 141 (R) and Statement 160 will be:
- a. A larger amount of total recorded goodwill.
 - b. A larger noncontrolling interest equity item.
 - c. Both a and b.
 - d. Neither a nor b.
24. True/False? Statement no.160 allows recognition of gains and/or losses on the consolidated income statement when the parent retains control after changes in its ownership percentage.
- a. True.
 - b. False.

SHAKING UP FINANCIAL STATEMENT PRESENTATION (P. 56)

25. Which of the following would not be disclosed in the body of the proposed statement of financial position?
- a. Net operating assets.
 - b. Net business assets.
 - c. Short-term financing liabilities.
 - d. Total assets.
 - e. Net financing assets.

26. True/False? In the proposed statement of financial position, assets and liabilities are separated into distinct sections.
- a. True.
 - b. False.
27. Under the proposal, a financing section would be a part of:
- a. The statement of financial position.
 - b. The statement of comprehensive income.
 - c. The statement of cash flows.
 - d. All of the above.
 - e. None of the above.
28. The business section of the proposed statement of financial position includes the _____ section(s).
- a. Operating
 - b. Investing
 - c. Financing
 - d. A, b and c
 - e. A and b but not c
29. Which of the following would be reported in the proposed financial statements?
- a. Discontinued operations.
 - b. Extraordinary items.
 - c. Both a and b.
 - d. Neither a nor b.

DEPRECIATE PROPERTY IN LIKE-KIND EXCHANGES CONSISTENTLY (P. 74)

30. The final regulations on depreciating MACRS property affect taxpayers who have acquired property involved in:
- a. Like-kind exchanges under Section 1031.
 - b. Involuntary conversions under Section 1033.
 - c. Either a or b.
 - d. Neither a nor b.
31. May a taxpayer who exchanges a machine depreciated under the unit-of-production method for a used machine depreciate under MACRS the sum of the exchanged basis and excess basis of the used machine (replacement property) as a machine placed in service at the time of replacement?
- a. Yes.
 - b. No.
32. If the replacement property's recovery period is shorter than that of the relinquished property, the _____ period applies to the replacement property.
- a. Longer
 - b. Shorter

PRICE TAGS ON TECHNOLOGY: NO SIMPLE SOLUTIONS (P. 80)

33. Which of the following specifies / specify the methodology to use in determining technology revenue?
- a. FASB Statement no. 141.
 - b. FASB Statement no. 141 (R).
 - c. FASB Statement no. 157.
 - d. All of the above.
 - e. None of the above.

TAX MATTERS (P. 95)

34. In *Eugene A. Fisher v. U.S.*, the court:
- a. Ruled that the policyholders' ownership rights had a value of zero.
 - b. Held that the taxpayer had realized income on the sale.
 - c. Both a and b.
 - d. Neither a nor b.
35. In *Hubert Enterprises Inc. v. Commissioner*, the Tax Court held:
- a. That HHC was not a payer of last resort of LCL's recourse debt.
 - b. That HHC did not make an unconditional promise to contribute additional capital to LCL.
 - c. Both a and b.
 - d. Neither a nor b.

FROM *The Tax Adviser* (P. 102)

36. An intentionally defective grantor trust involves a complete transfer to a trust for _____ purposes.
- Estate and gift
 - Income tax
 - Both a and b
 - Neither a nor b

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

COMPONENT MATERIALITY FOR GROUP AUDITS (P. 42)

37. Which of the following accurately describe(s) group audits?
- Group audits are performed on an entity with multiple locations or components.
 - Group audits are associated with separately audited financial information included in consolidated or group financial statements.
 - Both a and b.
 - Neither a nor b.
38. The group engagement audit partner must:
- Determine group overall materiality.
 - Establish or approve appropriate materiality levels for the individual components.
 - Both a and b.
 - Neither a nor b.
39. Which of the following was (were) included as an IAASB guideline regarding component materiality?
- The component materiality level is set lower than the group materiality level.
 - Different materiality levels may be established for different components.
 - The aggregate of the component materiality levels may *not* exceed the group materiality level.
 - A, b and c.
 - A and b but not c.

FORECASTING POST-COMBINATION EARNINGS (P. 48)

40. Under FASB Statement no. 141 (R) *Business Combinations*, the acquisition method of accounting for business combinations requires the acquiring company to recognize and measure _____ at fair value as of the acquisition date.
- All identifiable assets acquired
 - All liabilities assumed
 - Any noncontrolling interest in the acquired company
 - A, b and c
 - A and b but not c
41. In a business combination, the acquirer may record _____ that were not included on the acquiree's balance sheet.
- Assets
 - Liabilities
 - Assets and/or liabilities
 - Neither assets nor liabilities
42. The first step in the process of developing the acquisition accounting forecast should be to:
- Develop a pro forma balance sheet as of the anticipated acquisition date.
 - Develop a fair value balance sheet as of the anticipated acquisition date.
 - Develop a pro forma income statement for the period following the combination.
 - Develop the post-combination income effects.
 - Estimate the total fair value of consideration to be transferred to the seller.

MANAGING CUSTOMER PROFITABILITY (P. 54)

43. Of the five steps in the customer value management cycle, which one should occur first?
- Measuring customer lifetime value.
 - Measuring customer segment margins.
 - Managing customer profitability.
 - Measuring customer impact.
 - Managing customer segmentation.

TEST-DRIVING THE CODIFICATION (P. 62)

44. The FASB's *Accounting Standards Codification* correlates to the IFRS at the _____ level(s).
- a. Topic
 - b. Section
 - c. Paragraph
 - d. A, b and c
 - e. A and b but not c
45. Topics in the "Presentation" area relate to:
- a. Recognition.
 - b. Measurement.
 - c. De-recognition issues.
 - d. General presentation.
 - e. All of the above.
46. When it becomes authoritative, the codification:
- a. Will become the single source of authoritative U.S. accounting standards for nongovernmental entities.
 - b. Will supersede SEC guidance.
 - c. Both a and b.
 - d. Neither a nor b.
47. A user can navigate within the codification research system by:
- a. Browsing by topical structure.
 - b. Cross-referencing original standards and the codification.
 - c. Searching.
 - d. Using a "go to" feature.
 - e. Any of the above.

ON THE VERGE OF AN ACADEMIC REVOLUTION (P. 82)

48. The SEC's proposal calls for requiring all U.S. _____ companies to use IFRS by _____.
- a. Private...2012
 - b. Public...2012
 - c. Private and public...2014
 - d. Private...2014
 - e. Public...2014

TAX MATTERS (P. 92)

49. In *Nathaniel H. Garfield v. Commissioner*, the Second Circuit Court of Appeals ruled that the taxpayer's receipt of patent royalties was _____ because the payments were made in exchange for patent rights transferred to a related corporation.
- a. Ordinary income
 - b. Long-term capital gain

FROM *The Tax Adviser* (P. 100)

50. True/False? For sales of second homes after December 31, 2008, no period before January 1, 2009 will be considered a period of nonqualified use.
- a. True.
 - b. False.

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