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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
First Quarter (January - March), 2009; Course #0901
Recommended CPE Credit - 7 hours (Exceptions noted on next page)
CPE Subject Division: 4 Accounting/Auditing; 2 Tax; 1 Management

Please print all information below and mark your answers clearly in dark ink.

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. ***For faster response, please print your email and fax number above. 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?
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____ 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

For CPE credit, this exam must be completed by March 31, 2011

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Date Completed: ____________

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.*

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Email: info@accounting-education.com
Can be used to email scanned answer sheet

Fax: 1-800-645-1099

Address (Postal and Physical):

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: #0901 (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:

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Price per course for orders of 8 to 23 courses:	$33
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Quarterly CPE Exam on the *Journal of Accountancy* – First Quarter 2009

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 2009

SOCIAL SECURITY FOR TWO (P. 30)

1. In the 62/70 split espoused by Mahaney and Carlson, the lower-income spouse:
   a. Files early, at age 62 or 63.
   b. Uses his or her own earnings record.
   c. Both a and b.
   d. Neither a nor b.

2. In the 62/70 split described in the previous question, the higher-income spouse:
   a. Files at his or her full retirement age (FRA) to collect 50% of the lower-income spouse's FRA.
   b. Applies at age 70 to collect based on his or her own earnings history.
   c. Both a and b.
   d. Neither a nor b.

3. True/False? Social Security benefits can provide an effective inflation hedge.
   a. True. b. False.

4. In an “SSA Do-Over,” a taxpayer who began collecting benefits early:
    a. May later pay back the benefits received and file a new application for larger benefits.
    b. Is entitled to either a tax credit or a deduction for the income taxes paid on the benefits previously collected.
    c. Both a and b.
    d. Neither a nor b.

5. In a “file and suspend” strategy, the lower-income spouse:
    a. Can collect spousal benefits as soon as his or her higher-earning spouse reaches full retirement age.
    b. Should begin to collect spousal benefits at his or her full retirement age.
    c. Both a and b.
    d. Neither a nor b.

6. When one spouse dies, a surviving spouse of full retirement age is entitled to:
    a. 100% of the amount the surviving spouse was collecting.
    b. 100% of the amount the deceased spouse was collecting.
    c. The lesser of a or b.
    d. The greater of a or b.

ANNUITIES AND THE OTHER SIDE OF THE RETIREMENT SAVINGS COIN (P. 36)

7. Which of the following investments ensures that the participant will not outlive his or her income?
    a. Immediate annuities offering payments guaranteed to increase in accordance with the CPI.
    b. Life cycle mutual funds.
    c. Both a and b.
    d. Neither a nor b.

8. Payments from ______ may cease upon the death of the participant.
    a. An immediate annuity with a single annuitant
    b. Life cycle mutual funds
    c. Both a and b
    d. Neither a nor b

PLAN DESIGN IN THE BALANCE (P. 40)

9. In cash balance plans, benefits are based on:
    a. The actual investment earnings on the plan assets.
    b. The plan’s formula.
    c. Both a and b.
    d. Neither a nor b.

10. Who bears the investment risk in cash balance plans?
    a. The employer.
    b. The employee.
    c. Both a and b.
    d. Neither a nor b.

11. A cash balance plan:
    a. Is a money purchase plan.
    b. Is a defined benefit plan.
    c. Is a defined contribution plan.
    d. May be any of the above.
    e. Is none of the above.

12. Cash balance plan sponsors must:
    a. Follow all qualified plan rules including maintaining a plan document and making periodic amendments, administration and annual plan reporting.
    b. Be prepared to make annual required contributions.
    c. Pay required PBGC premiums and consulting fees.
    d. Have annual actuarial valuations prepared.
    e. All of the above.

THE DEATH OF LIFO? (P. 44)

13. True/False? International Financial Reporting Standards permit LIFO for financial reporting (book) accounting.
    a. True.
    b. False.

14. Which of the following require(s) entities to carry inventory at lower of cost or net realizable value?
- a. IFRS.
- b. GAAP.
- c. Both IFRS and GAAP.
- d. Neither IFRS nor GAAP.

15. True/False? A company may use a unit LIFO method for financial reporting (book) purposes and a dollar-value LIFO method for tax purposes.
- a. True.
- b. False.

FINANCIAL REPORTING FOR REAL ESTATE (P. 50)

16. Under FASB Statement no. 157, real property should be valued:
- a. Using a market-based measurement.
- b. At its highest and best use to a typical market participant.
- c. Using an entity-specific measurement.
- d. A, b and c.
- e. A and b but not c.

TAX MATTERS (P. 66)

17. In *University of Chicago Hospitals v. U.S.*, the court's decision reflected which of the following positions?
- a. That the residency program was not a school, college or university.
- b. That residency programs did not grant degrees.
- c. That medical residents are not enrolled students.
- d. All of the above.
- e. None of the above.

CONGRESS EXTENDS, AMENDS RESEARCH CREDIT (P. 72)

18. To be eligible for a section 41 research credit:
- a. Expenditures are generally limited to research or expenditures eligible for expense treatment under section 174.
- b. The research must be for the purpose of discovering information technological in nature.
- c. Substantially all of the research activities must constitute an experimentation process.
- d. The experimentation must relate to a qualified purpose.
- e. All of the above.

QUESTIONS 19 – 36 RELATE TO THE *Journal of Accountancy* OF FEBRUARY 2009

USING IFRS TO DRIVE BUSINESS DEVELOPMENT (P. 30)

19. The proposed transition to IFRS is scheduled to begin for large accelerated filers for fiscal years ending on or after December 15:

a. 2012. b. 2013. c. 2014. d. 2015. e. 2016.

20. The proposed timetable calls for nonaccelerated filers to begin IFRS filings for years ending on or after December 15:

a. 2012. b. 2013. c. 2014. d. 2015. e. 2016.

21. True/False? Under IAS, deferred tax assets that are not expected to be fully recoverable are shown on the balance sheet at their gross amounts.
- a. True.
- b. False.

22. **A**ssume that the cost of a unit of inventory is $70, the current restocking cost is $75, the market value is $65 and that the selling cost is $5. Under IFRS, the unit of inventory should be valued at:

a. $75. b. $70. c. $65. d. $60. e. None of the above.

IFRS: BEYOND THE STANDARDS (P. 34)

23. The official working language of the International Accounting Standards Board (IASB) is:

a. German. b. English. c. French. d. Japanese. e. None of the above.

24. Which of the following is *not* among the four cultural dimensions that, according to Geert Hofstede, "reflected core values and helped explain general similarities and differences in culture?"
- a. Achievement orientation.
- b. Uncertainty avoidance.
- c. Power distance.
- d. Nationalism.
- e. Individualism.

25. According to the authors, recent accounting research suggests that ________ could "undermine the rigorous interpretation and application of IFRS and lead to a lack of comparability across countries."
  a. National culture
  b. Language translation
  c. Geopolitical factors
  d. A, b and c
  e. A and b but not c

UNITING THE GLOBAL PROFESSION (P. 40)

26. True/False? There is a direct link between the adoption of IFRS globally and the agenda of the International Auditing and Assurance Standards Board (IAASB).
  a. True. b. False.

REPORTING UNRELATED BUSINESS INCOME (P. 52)

27. Tax exempt organizations:
  a. Are taxed on unrelated business income.
  b. Are not permitted to engage in unrelated business activities.
  c. Both a and b.
  d. Neither a nor b.

28. Which of the following would generally be included in unrelated business income?
  a. Dividends.
  b. Rent and royalties.
  c. Capital gains.
  d. Interest.
  e. None of the above.

29. True/False? The statute of limitations bars the IRS from reviewing a loss year return to confirm the accuracy of an NOL carryforward if the Form 990-T had been filed more than three years earlier.
  a. True. b. False.

30. True/False? Tax exempt organizations are allowed to deduct expenses directly associated with UBI to arrive at net UBI.
  a. True. b. False.

FORECASTING WITH EXCEL (P. 62)

31. Linear regression tools in Excel can be used:
  a. To forecast revenues.
  b. For time-series analysis.
  c. To establish relationships between costs and activities.
  d. To analyze price elasticity of a company's products.
  e. All of the above.

TAX PRACTICE CORNER (P. 68)

32. A reportable gift transfer could result from a mom's adding her daughter as a joint owner of:
  a. Real estate.
  b. A business
  c. A bank account.
  d. A, b or c.
  e. A or b but not c.

TAX MATTERS (P. 70)

33. Which of the following findings played a critical role in the tax court's decision in *Holsinger v. Commissioner?*
  a. Lack of sufficiently substantial trading activity.
  b. Lack of sufficient efforts to capture swings in the market during trading sessions.
  c. The taxpayers' election to conduct their business as an LLC
  d. A, b and c.
  e. A and b but not c.

34. In *University of Chicago v. U.S.*, the Seventh Circuit affirmed a lower court's decision:
  a. That FICA must be withheld on 403(b) salary reductions.
  b. To impose a failure-to-pay penalty.
  c. Both a and b.
  d. Neither a nor b.

35. In *Revenue Procedure 2008-43*, the IRS stated that it now considers a rolling-average method of inventory costing used for financial statements to be acceptable for income tax reporting if:

a. Ending inventory cost under the rolling-average method does not vary by more than 1% from its cost under FIFO or other specific identification method used.
b. The entire inventory of the taxpayer turns over at least four times a year.
c. Both a and b.
d. Either a or b.

FROM *The Tax Adviser*: SUBSEQUENT DEFERRALS UNDER SECTION 409A (P. 78)

36. Under the new rules for nonqualified deferred compensation, if the original payment terms of a hypothetical plan provided for a lump-sum payment at age 61:

a. The subsequent deferral election must be made before the employee turns 60.
b. The payment date cannot be earlier than age 66.
c. Both a and b.
d. Neither a nor b.

QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF MARCH 2009

A 2009 TUNEUP FOR YOUR FIRM'S SUCCESSION PLANNING (P. 42)

Note: The next three questions relate to *The 2008 PCPS Succession Survey*.

37. Which of the following steps are CPA firms most likely to take to create a smooth transition to younger leaders?

a. Changing the way the firm operates so that it is not built around the expectation that everyone, including partners, should work excessive hours.
b. Focusing on training to reverse the staffing pyramid.
c. Requiring the partners to push down in order to create more leverage.
d. Making it a priority of the firm to develop people so that work can be pushed down at every level.
e. Recently updated or in process of updating partner/retirement agreements.

38. Which of the following steps is most widely used by multiowner firms to groom promising talent?

a. Coaching by an outside consultant.
b. Identification of and/or training for specific competencies.
c. Formal training or education in interpersonal skills.
d. Formal mentoring programs.
e. Informal coaching by an assigned partner or owner.

39. Which of the following is the most widely used element in partner compensation systems?

a. Size of the owner's client book or fees managed.
b. Billable/collectible hours.
c. Ownership percentage.
d. Salary or base draw.
e. Capital accounts.

WEATHERING THE "OTHER-THAN-TEMPORARY" IMPAIRMENT STORM (P. 48)

40. FASB Statement no. 157, *Fair Value Measurements*, provides guidance on:

a. *How* to measure fair value.
b. *When* assets should be recorded at fair value.
c. Both a and b.
d. Neither a nor b.

41. Which of the three categories of investment securities is / are subject to ongoing impairment analysis each quarter to determine if declines in fair value below book value are considered other than temporary?

a. Held-to-maturity.
b. Available-for-sale.
c. Trading.
d. A, b and c.
e. A and b but not c.

42. If impairment is considered other than temporary:

a. The holder must write down the cost basis of the impaired security to fair value.
b. The amount of the write-down is included in earnings as a realized loss.
c. A new cost basis is established for the security.
d. A, b and c.
e. A and b but not c.

43. Any subsequent recovery in fair value:
  a. May be recognized as soon as it is discovered.
  b. Is not recognized in earnings until the security is sold.

44. FSP EITF 99-20-1:
  a. Requires the use of market participant assumptions when determining future cash flows.
  b. Requires an assessment of whether it is *probable* that there has been an adverse change in estimated cash flows.
  c. Both a and b.
  d. Neither a nor b.

45. Which of the following factors might affect whether an investor recognizes an other-than-temporary impairment change on an investment?
  a. Whether the investor has the intent and ability to continue holding the security for a sufficient period to allow for an anticipated recovery in market value.
  b. Whether the decline in fair value is attributable to the credit deterioration of the issuer.
  c. Both a and b.
  d. Neither a nor b.

BEST OF BOTH WORLDS? (P. 64)

46. IRC Section 1231 allows gains and losses from disposals of property used in a trade or business to be netted and:
  a. A net gain to be treated as long-term capital gain.
  b. A net loss to be treated as an ordinary loss.
  c. Both a and b.
  d. Neither a nor b.

47. The Section 1231 lookback rule affects:
  a. The amount of the gain.
  b. The character of the gain.
  c. Both a and b.
  d. Neither a nor b.

THE REDESIGNED FORM 990 (P. 72)

48. A hypothetical nonprofit organization with gross receipts of $1,200,000 and total assets of $3,000,000 must begin using the new Form 990 for the tax year:
  a. 2008. b. 2009. c. 2010. d. 2011. e. 2012.

TAX MATTERS (P. 80)

49. IRC Section 165 established three requirements for claiming a theft loss. In *Dominick J. Vincentini*, the taxpayer was unable to prove:
  a. The year of discovery of a loss.
  b. That a theft had occurred.
  c. The amount of a loss.

50. In *Michael Neil McWhorter v. Commissioner*, which of the following factors provided support for the tax court's decision?
  a. The company lacked control over the taxpayer.
  b. A lack of permanency existed in the relationship between the company and the taxpayer.
  c. The degree of skill of the taxpayer.
  d. All of the above.
  e. None of the above.

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