

Accounting Education Associates
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Second Quarter (April – June), 2009; Course #0902

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 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 fax and email information 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 June 30, 2011

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<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 email scanned answer sheet

Fax: 1-800-645-1099

Address (Mail and Physical Address):
1809 Worsham Place
Greensboro, NC 27408-3113

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: #0902 (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.

Quarterly CPE Exam on the *Journal of Accountancy* – Second 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.

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QUESTIONS 1 - 18 RELATE TO THE *Journal of Accountancy* OF APRIL 2009

HELP FOR SOLVING CPAs' ETHICAL DECISIONS (P. 30)

1. AICPA members in _____ are required to comply with the ethical requirements of the AICPA's *Code of Professional Conduct*.
 - a. Public practice
 - b. Business
 - c. Academia and government
 - d. A, b and c
 - e. A and b but not c
2. The AICPA's newly published guide's approach to ethical dilemmas applies to all of the following rules *except*:
 - a. General standards.
 - b. Independence.
 - c. Accounting principles.
 - d. Contingent fees.
 - e. Integrity and objectivity.
3. Which of the following is *not* among the six threat categories provided by the AICPA's guide?
 - a. Advocacy threat.
 - b. Self-review threat.
 - c. Undue influence threat.
 - d. Environmental threat.
 - e. Adverse interest threat.

TAXES IN TROUBLED TIMES (P. 36)

4. Owners of Section 529 plans whose assets' fair market value is less than cost can liquidate their plan and:
- Recognize the loss as an ordinary loss.
 - Treat the loss as a miscellaneous itemized deduction subject to the 2% of AGI limitation.
 - Both a and b.
 - Neither a nor b.
5. The \$100,000 modified adjusted gross income limit affects Roth IRA conversions made in:
- 2009.
 - 2010.
 - Both a and b.
 - Neither a nor b.
6. Taxpayers who complete Roth IRA conversions in _____ can pay the resulting tax over two years.
- 2009
 - 2010
 - Either a or b
 - Neither a nor b
7. Which of the following is (are) true of offers in compromise?
- The taxpayer must pay 20% of the tax up front.
 - Any upfront payment is nonrefundable.
 - Both a and b.
 - Neither a nor b.

STIMULUS ACT EASES TAXES FOR INDIVIDUALS, SMALL BUSINESSES (P. 40)

8. Under the act, the maximum Hope higher education tax credit per student is:
- \$1,200.
 - \$1,800.
 - \$2,100.
 - \$2,500.
 - \$3,000.
9. Under the act, the higher education tax credit will be:
- Nonrefundable.
 - 20% refundable.
 - 40% refundable.
 - 60% refundable.
 - 100% refundable.
10. The act's Hope higher education tax credit is available for the first _____ years of postsecondary education.
- Two
 - Three
 - Four
 - Five
 - Six
11. For qualifying 2009 home purchases, buyers may be eligible for a refundable tax credit of up to:
- \$4,000.
 - \$6,000.
 - \$7,000.
 - \$8,000.
 - \$9,000.
12. An individual taxpayer with MAGI of \$70,000 may be eligible for the work pay credit of _____ annually in 2009 and 2010.
- \$0
 - \$200
 - \$400
 - \$600
 - \$800
13. The act allows eligible small businesses to carry their 2008 net operating losses back for _____ years.
- Two
 - Three
 - Four
 - Five
 - Six

IFRS: A PREPARER'S POINT OF VIEW (P. 46)

14. Which strategy of implementing IFRS involves limiting the focus to only identified differences between IFRS and U.S. GAAP?
- Adoption.
 - Conversion.
15. Under _____, development expenses may be eligible for capitalization earlier.
- IFRS
 - U.S. GAAP
16. Under IFRS, a liability is recognized when its existence is:
- Possible.
 - More likely than not.
 - Probable.

IFRS CONVERGES TO U.S. GAAP ON SEGMENT REPORTING (P. 50)

17. IFRS 8 requires an entity to report:
- A measure of segment profit or loss and of segment assets.
 - A measure of liabilities for each reportable segment.
 - The amount of investment in associates and joint ventures accounted for by the equity method.
 - A, b and c.
 - A and b but not c.

TAX CONSIDERATIONS FOR BUYING AND SELLING PROPERTY WITH A BURDENSOME LEASE
(P. 51)

18. Lessors realize a capital gain or loss on the sale of leases to:
- a. A lessee.
 - b. A third party.
 - c. Either a or b.
 - d. Neither a nor b.

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

NEWS DIGEST (P. 15)

19. Under GASB's new Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which of the following classifications is most binding?
- a. Committed.
 - b. Assigned.
 - c. Restricted.
 - d. Unassigned.
 - e. None of the above.

SMALL RETIREMENT PLANS FACE FUNDING DILEMMA (P. 26)

20. A defined benefit plan would be subject to a higher pension benefit guaranty premium if the funding target attainment percentages were below _____.
- a. 110%
 - b. 100%
 - c. 90%
 - d. 80%
 - e. 60%
21. A defined benefit plan will be deemed to be underfunded unless it receives actuarial certification and an FTAP calculation is completed by:
- a. March 1.
 - b. April 1.
 - c. July 1.
 - d. October 1.
 - e. December 31.
22. In IR 2008-118, the IRS set the lifetime income benefit of defined plans at _____ per year.
- a. \$160,000
 - b. \$175,000
 - c. \$195,000
 - d. \$200,000
 - e. \$205,000
23. Which of the following are suitable for 412(e)(3) plans?
- a. Guaranteed annuity contracts.
 - b. Mutual funds that hold common stocks.
 - c. Individual common stocks.
 - d. A, b and c.
 - e. A and b but not c.
24. The maximum contribution for tax year 2009 for _____ plans is \$49,000.
- a. Defined benefit
 - b. Defined contribution
 - c. Both a and b.
 - d. Neither a nor b.

COMPLIANCE TESTS (P. 30)

25. The general test for ensuring that contributions or benefits do not discriminate in favor of highly compensated employees requires that each rate group satisfies:
- a. The 70% ratio percentage test.
 - b. The average benefits test.
 - c. Both a and b.
 - d. Either a or b.

HELP FOR HOMEBUYERS: A GUIDE TO THE NEW FIRST-TIME HOMEBUYER CREDIT (P. 34)

26. Which of the following taxpayers who bought their first home between January 1 and November 30, 2009 may be eligible for an \$8,000 tax credit under the American Recovery and Reinvestment Act ("ARRA") of 2009?
- a. A single first-time homebuyer with MAGI of \$73,000.
 - b. Joint-filing, first-time homebuyers with MAGI of \$149,000.
 - c. Joint-filing, first-time homebuyers with MAGI of \$172,000.
 - d. A, b and c.
 - e. A and b but not c.
27. True/False? The \$8,000 ARRA credit may be available without recapture to a qualified first-time homebuyer who bought a \$100,000 principal residence on February 1, 2009 and sells it on September 1, 2009, assuming that the disposition was not incident to either death or divorce.
- a. True.
 - b. False.

28. The ARRA credit may be available to:
- a. Nonresident aliens.
 - b. Unmarried co-purchasers.
 - c. Both a and b.
 - d. Neither a nor b.
29. True/False? A taxpayer who had properly claimed an \$8,000 ARRA credit in 2009 and later sells the residence in 2013 would be subject to recapture.
- a. True.
 - b. False.

INTRODUCING THE NEW PRINCIPLES-BASED PEER REVIEW STANDARDS (P. 39)

30. True/False? The revised peer review standards prescribe the content of representation letters.
- a. True.
 - b. False.

VALUATIONS FOR FINANCIAL REPORTING IN TODAY'S MARKET (P. 44)

31. Under new FASB fair value guidance (released on April 2, 2009), once an other-than-temporary impairment is determined for a debt security, the portion of an asset write-down attributable to credit losses may flow through _____ and the remaining portion may flow through _____.
- a. Other comprehensive income...earnings
 - b. Earnings...other comprehensive income

INTERNET TELEPHONE SERVICES FOR INDIVIDUALS AND SMALL BUSINESSES (P. 58)

32. Which of the following VoIP providers require(s) the installation of software?
- a. Vonage V-Phone.
 - b. MagicJack.
 - c. Both a and b.
 - d. Neither a nor b.

TAX MATTERS (P. 65)

33. In *General Mills Inc. v. U.S.*, the Eighth Circuit Court of Appeals:
- a. Viewed the stock redemption and distribution as two distinctly separate transactions.
 - b. Allowed a deduction for the ESOP stock redemption.
 - c. Both a and b.
 - d. Neither a nor b.
34. Which of the following is (are) taxable as ordinary income?
- a. Payment received for a noncompete agreement.
 - b. The portion of sale price attributable to goodwill.
 - c. Both a and b.
 - d. Neither a nor b.
35. Which of the following actions contributed to the decision of the New Mexico Court of Appeals in the *Dell Catalog Sales LP v. Taxation and Revenue Department of the State of New Mexico*?
- a. Dell contracted for the design and production of the catalogs outside New Mexico.
 - b. Dell retained the right to determine distribution within the state.
 - c. Both a and b.
 - d. Neither a nor b.
36. True/False? In *David A. Wilbert v. Commissioner*, the Seventh Circuit of Appeals allowed a deduction for the taxpayer's travel expenses associated with his work as an airline mechanic.
- a. True.
 - b. False.

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

NEWS DIGEST (P. 23)

37. Which of the following steps is the FDIC taking to restore a healthy reserve ratio?
- a. Imposing an emergency assessment on deposits of insured institutions.
 - b. Imposing an emergency assessment on total assets of insured institutions.
 - c. Buying certain problem assets from troubled insured institutions.
 - d. A, b and c.
 - e. A and b but not c.

38. During the fourth quarter of 2008, the biggest percentage jump in serious credit delinquencies took place in which of the following categories?

- a. Subprime mortgages.
- b. Prime mortgages.
- c. Non-prime mortgages.
- d. Reverse mortgages.
- e. Second mortgages.

39. The GAAP hierarchy for preparing financial statements of state and local governments is now contained in:

- a. GASB Statement no. 45.
- b. SAS no. 69.
- c. GASB Statement no. 55.
- d. GASB Statement no. 56.
- e. GASB Statement no. 60.

PROTECT YOUR PORTABLE DATA – ALWAYS AND EVERYWHERE (P. 30)

40. Federal, state and local laws and regulations _____ professionals and institutions to safeguard all personal data they collect.

- a. Require
- b. Encourage but not require

41. Which of the following is a / are full-disk encryption program(s)?

- a. BitLocker.
- b. Microsoft's Encrypting File System.
- c. Both a and b.
- d. Neither a nor b.

42. Which of the following hardware-enabled encryption products permanently destroys data whenever the administrator begins a self-destruct sequence?

- a. SanDisk's encrypted flashdrive Cruiser Enterprise FIPS.
- b. IronKey
- c. Both a and b.
- d. Neither a nor b.

IMPORTING DATA INTO MICROSOFT EXCEL 2007 (P. 36)

43. Microsoft Excel 2007 can import data directly from _____ into a an Excel spreadsheet.

- a. A Web page
- b. Any database stored on your own PC
- c. Any ODBC-compliant database from a computer in a remote location
- d. A, b and c
- e. A and b but not c

PUT YOUR BUSINESS ON THE MAP WITH GOOGLE MAPS (P. 44)

44. Which of the following is / are available through Google Maps?

- a. Free listing on Google search engine.
- b. Free map to the office location.
- c. A "tracking" phone number.
- d. A, b and c.
- e. A and b but not c.

THE TECH-SAVVY CPA (P. 50)

45. True/False? The author recommends that you leave your computer on overnight.

- a. True.
- b. False.

46. The author recommends setting up encryption on:

- a. Computer hard drives or in data folders.
- b. Wireless routers.
- c. Social networks.
- d. A, b and c.
- e. A and b but not c.

EXECUTIVE COMPENSATION: WHAT'S REASONABLE? (P. 56)

47. Which measure of performance did the Seventh Circuit use in *Exacto Spring*?

- a. Shareholder returns (dividends plus stock appreciation).
- b. Return on assets.
- c. Return on equity.
- d. Net profit margin.
- e. Percentage changes in EPS.

48. In which of the following cases did a court recognize the independent investor test as a primary factor weighing *against* the taxpayer?

- a. *Donald Palmer Co. Inc. v. Commissioner.*
- b. *Trucks Inc. v. U. S.*
- c. *Elliotts Inc. v. Commissioner.*
- d. *Shaffstall Corp. v. U.S.*
- e. *Alpha Medical Inc. v. Commissioner.*

TAX MATTERS (P. 72)

49. Which of the following factors was / were instrumental in the tax court's decision in *Shri G. and Sudha Agarwal v. Commissioner*?

- a. The taxpayer worked full-time in real property trades or businesses in 2001 and 2002.
- b. The taxpayer was not a licensed real estate broker in California.
- c. Both a and b.
- d. Neither a nor b.

50. The section 179 expensing limit for 2008 and 2009 is:

- a. \$90,000
- b. \$125,000.
- c. \$133,000.
- d. \$189,000.
- e. \$250,000.

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