

Accounting Education Associates
(www.accounting-education.com)

1809 Worsham Place, Greensboro, NC 27408-3113
Email Address: info@accounting-education.com
Phone: (800) CPE-Exam; Fax: (800) 645-1099

QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Third Quarter (July - September), 2009; Course #0903

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 answers clearly in dark ink:

Name _____
Firm _____
Address _____
City/State/Zip _____
Telephone (Day) _____ Fax _____
Email Address _____

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 provide your email and fax information above.*

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

1. =a= =b= =c= =d= =e=
2. =a= =b= =c= =d= =e=
3. =a= =b= =c= =d= =e=
4. =a= =b= =c= =d= =e=
5. =a= =b= =c= =d= =e=
6. =a= =b= =c= =d= =e=
7. =a= =b= =c= =d= =e=
8. =a= =b= =c= =d= =e=
9. =a= =b= =c= =d= =e=
10. =a= =b= =c= =d= =e=
11. =a= =b= =c= =d= =e=
12. =a= =b= =c= =d= =e=
13. =a= =b= =c= =d= =e=
14. =a= =b= =c= =d= =e=
15. =a= =b= =c= =d= =e=
16. =a= =b= =c= =d= =e=
17. =a= =b= =c= =d= =e=
18. =a= =b= =c= =d= =e=
19. =a= =b= =c= =d= =e=
20. =a= =b= =c= =d= =e=
21. =a= =b= =c= =d= =e=
22. =a= =b= =c= =d= =e=
23. =a= =b= =c= =d= =e=
24. =a= =b= =c= =d= =e=
25. =a= =b= =c= =d= =e=
26. =a= =b= =c= =d= =e=
27. =a= =b= =c= =d= =e=
28. =a= =b= =c= =d= =e=
29. =a= =b= =c= =d= =e=
30. =a= =b= =c= =d= =e=
31. =a= =b= =c= =d= =e=
32. =a= =b= =c= =d= =e=
33. =a= =b= =c= =d= =e=
34. =a= =b= =c= =d= =e=
35. =a= =b= =c= =d= =e=
36. =a= =b= =c= =d= =e=
37. =a= =b= =c= =d= =e=
38. =a= =b= =c= =d= =e=
39. =a= =b= =c= =d= =e=
40. =a= =b= =c= =d= =e=
41. =a= =b= =c= =d= =e=
42. =a= =b= =c= =d= =e=
43. =a= =b= =c= =d= =e=
44. =a= =b= =c= =d= =e=
45. =a= =b= =c= =d= =e=
46. =a= =b= =c= =d= =e=
47. =a= =b= =c= =d= =e=
48. =a= =b= =c= =d= =e=
49. =a= =b= =c= =d= =e=
50. =a= =b= =c= =d= =e=

Date Completed: _____

For CPE credit, this exam must be completed by September 30, 2011

* 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 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.

REFERRAL INCENTIVE PROGRAM - WE’LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

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* – Third 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.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

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.

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

NEWS DIGEST (P. 17)

1. GASB Statement no. 53:
 - a. Deals with derivative instruments.
 - b. Applies to fiscal years beginning after June 15, 2009.
 - c. Both a and b.
 - d. Neither a nor b.

A FRESH APPROACH FOR COMPILATION AND REVIEW (P. 24)

2. Which of the following allow or would allow practitioners to perform review engagements when independence is impaired due to the performance of nonattest service designed to help management prepare higher quality or more reliable financial statements?
 - a. Existing review reporting requirements.
 - b. The proposed requirements.
 - c. Both a and b.
 - d. Neither a nor b.

3. True/False? Existing standards do not provide a framework for the level of assurance that the practitioner is seeking to obtain in order to accomplish the objective of a review.
 - a. True.
 - b. False.
4. Which of the following allow(s) or would allow practitioners to disclose a general description of the reasons for a lack of independence in the compilation report?
 - a. Existing compilation report requirements (as of July 2009).
 - b. The proposed standards.
 - c. Both a and b
 - d. Neither a nor b
5. In review engagements, _____ a signed engagement letter from the client.
 - a. Existing review reporting requirements (as of July 2009) mandate
 - b. The proposed standards would *require*
 - c. Both a and b
 - d. Neither a nor b
6. In compilation engagements, _____ a signed engagement letter from the client.
 - a. Existing compilation report requirements (as of July 2009) mandate
 - b. The proposed standards would require
 - c. Both a and b
 - d. Neither a nor b
7. The proposal would _____ the practitioner to disclose a general description of the reasons for the lack of independence in a compilation report.
 - a. Permit
 - b. Require
 - c. Both a and b
 - d. Neither a nor b

VALUATION DISCOUNTS FOR ESTATE AND GIFT TAXES (P. 32)

8. Which of the following is *not* among the methods most often used to value a closely held company that carries on an active trade or business?
 - a. Income method.
 - b. Net asset value method.
 - c. Market method.
9. Willamette Management and John Emory conducted empirical studies of corporations that had IPOs. These studies show that the discounts attributed to a lack of marketability were generally _____ than those corresponding discounts associated with the restricted stocks of other corporations.
 - a. Lower
 - b. Higher
10. In _____, the Tax Court rejected the taxpayer's discount for lack of marketability because it considered them to be based on outdated restricted stock studies.
 - a. *Jelke v. Commissioner*
 - b. *Holman v. Commissioner*
 - c. *Astleford v. Commissioner*
 - d. *Litchfield v. Commissioner*
 - e. *Temple v. Commissioner*
11. Which of the following cases demonstrated tiered discounts for lack of control?
 - a. *Jelke v. Commissioner*.
 - b. *Holman v. Commissioner*.
 - c. *Astleford v. Commissioner*.
 - d. *Litchfield v. Commissioner*.
 - e. *Temple v. Commissioner*.
12. Which of the following cases demonstrated the taxpayer's strong position for taking 100% built in gain taxes into account in valuing C corporation stock by the net asset valuation method?
 - a. *Jelke v. Commissioner*.
 - b. *Holman v. Commissioner*.
 - c. *Astleford v. Commissioner*.
 - d. *Litchfield v. Commissioner*.
 - e. *Temple v. Commissioner*.

ACCOUNTING FOR EMISSIONS (P. 40)

13. Under U.S. GAAP (using FERC guidance), emissions allowances are classified as _____ and are reported at _____.
 - a. Inventory ... fair value
 - b. Inventory ... historical cost
 - c. Intangible assets... fair value
 - d. Intangible assets... historical cost

TAX PRACTICE CORNER (P. 75)

14. On Form 1040, Schedule C, which of the following is / are subject to both income tax and self-employment tax?
- a. Net income from a trade or business.
 - b. Other income.
 - c. Both a and b.
 - d. Neither a nor b.
15. To be considered to be engaged in a trade or business, a taxpayer must:
- a. Demonstrate regularity of activities and transactions.
 - b. Demonstrate a good faith effort to earn a profit.
 - c. Actually earn a profit.
 - d. A, b and c.
 - e. A and b but not c.

TAX MATTERS (P. 76)

16. In which of the following cases did the court invalidate a Treasury regulation provision limiting innocent spouse relief to two years?
- a. *Cathy Marie Lantz v. Commissioner.*
 - b. *Denise Mannella v. Commissioner.*
 - c. *Suzanne L. Porter v. Commissioner.*
 - d. A, b and c.
 - e. A and b but not c.
17. In *Ocmulgee Fields Inc. v. Commissioner*, the Tax Court:
- a. Held that Ocmulgee had not presented enough evidence to show that tax avoidance was not a principal reason for the transaction, considering the obvious tax benefits of the exchange.
 - b. Said that basis shifting automatically meant that tax avoidance was a principal purpose of the transaction.
 - c. Upheld an accuracy penalty.
 - d. A, b and c.
 - e. A and b but not c.

FROM *The Tax Adviser* P. 82)

18. The newly released Form 941-X can be used to adjust FICA taxes when the employer discovers underpayment of FICA taxes _____ the end of the calendar year of the wage payment.
- a. Before
 - b. After
 - c. Either before or after
 - d. None of the above

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

NEWS DIGEST (P. 15)

19. FASB Statement no. 166:
- a. Eliminates the concept of a “qualifying special-purpose entity.”
 - b. Changes the requirements for derecognizing financial assets.
 - c. Requires additional disclosures.
 - d. A, b and c.
 - e. A and b but not c.
20. FASB Statement no. 167:
- a. Changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated.
 - b. Requires a company to provide additional disclosures about its involvement with variable-interest entities.
 - c. Requires a company to provide additional disclosures about any significant changes in risk exposure due to that involvement.
 - d. A, b and c.
 - e. A and b but not c.

HOW TO LEVERAGE SOCIAL NETWORKING (P. 26)

21. Which of the following is most oriented to professionals?
- a. Myspace.
 - b. LinkedIn.
 - c. Facebook.
 - d. Twitter.

CPAs EMBRACE TWITTER (P. 30)

22. Which of the following require(s) a prior relationship before you can connect?
- a. LinkedIn.
 - b. Facebook.
 - c. Twitter.
 - d. A, b and c.
 - e. A and b but not c.

FOUR OPTIONS FOR MEASURING VALUE CREATION (P. 34)

23. According to the authors, the primary role of a corporation is to:
- a. Create jobs.
 - b. Fulfill a social mission.
 - c. Create shareholder value.
 - d. Maximize current profits.
 - e. Maximize return on assets.
24. According to the authors, accounting profit measures ignore:
- a. The cost of equity capital.
 - b. Risk and changes in risk.
 - c. The cost of debt.
 - d. A, b and c.
 - e. A and b but not c.

DEFINED CONTRIBUTION PLANS FOR NONPROFIT ORGANIZATIONS (P. 38)

25. To avoid ERISA requirements, which of the following criteria must a 403(b) plan meet?
- a. Can have no employer contributions.
 - b. Must have minimal administrative involvement by the plan administrator.
 - c. Must be a voluntary plan.
 - d. A, b and c.
 - e. A and b but not c.
26. Which of the following investment options can a 403(b) plan offer?
- a. Mutual funds.
 - b. Annuity products.
 - c. Self-directed brokerage accounts.
 - d. A, b and c.
 - e. A and b but not c.
27. Which of the following can simply pick up an entire plan and transfer the assets to a new service provider?
- a. 401(k).
 - b. 403(b).
 - c. Both a and b.
 - d. Neither a nor b.
28. Which of the following plans must deposit deferrals into the participant's account no later than the 15th business day of the month following the month in which contributions are received or withheld by the employer?
- a. ERISA-compliant 403(b)s.
 - b. Non-ERISA 403(b)s.
 - c. Both a and b.
 - d. Neither a nor b.

HARVESTING TAX BENEFITS OF GREEN BUILDING INCENTIVES (P. 44)

29. IRC Section 179D provides an energy-efficient commercial building deduction of up to \$.60 per square foot for each of the following:
- a. Interior lighting system.
 - b. HVAC.
 - c. Building envelope.
 - d. A, b and c.
 - e. A and b but not c.
30. IRC Section 45L provides a tax credit of up to _____ to homebuilders for each certified energy-efficient home they build and sell.
- a. \$500
 - b. \$1,000
 - c. \$2,000
 - d. \$3,000
 - e. \$5,000
31. Section 25C provides a tax credit of _____ % of qualifying improvements of up to \$ _____, made to existing homes.
- a. 10...500
 - b. 20...500
 - c. 20...1,000
 - d. 30...1,000
 - e. 30...1,500

THE IRS WHISTLEBLOWER PROGRAM: WHAT CPAs SHOULD KNOW (P. 50)

32. Under the whistleblower program, the maximum reward is _____ % of the collected proceeds in eligible cases involving, in general, an unreported tax liability of more than \$ _____, or for individual taxpayers where gross income exceeds \$ _____ for the tax year.
- a. 15...1 million...400,000
 - b. 15...1 million...300,000
 - c. 30...2 million...200,000
 - d. 30...1 million...200,000
 - e. 30...1 million...100,000

33. True/False? Under the whistleblower program, CPAs are encouraged and rewarded for turning in their own tax clients.

- a. True.
- b. False.

TAX MATTERS (P. 58)

34. In *Klamath Strategic Investment Fund LLC v. U.S.*, the Fifth Circuit ruled that:

- a. Klamath's loan transactions lacked economic substance.
- b. Klamath could deduct the interest expense.
- c. Both a and b.
- d. Neither a nor b.

FROM *The Tax Adviser* (P. 66)

35. For 2009, retirees subject to the required minimum distribution rules:

- a. May forgo the year's distributions.
- b. May forgo any part of the year's distribution and withdraw a reduced amount.
- c. Either a or b.
- d. Neither a nor b.

36. Which of the following can be carried over and can partially or fully offset otherwise taxable income resulting from a pension distribution?

- a. Net operating losses.
- b. Medical expenses.
- c. Both a and b.
- d. Neither a nor b.

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

NEWS DIGEST (P. 19)

37. IFRS for small- and medium-size entities will focus on all of the following *except*:

- a. Liquidity
- b. Interest coverage.
- c. Solvency.
- d. Segment reporting.
- e. Shorter-term cash flows.

38. IFRS for small- and medium-size entities prohibits:

- a. A components approach to depreciation.
- b. Reversal of impairment charges.
- c. LIFO.
- d. Recognition of goodwill.
- e. None of the above.

ERM: OPPORTUNITIES FOR IMPROVEMENT (P. 28)

39. True/False? A majority of the organizations responding to the survey indicated that management provides a report to the board of directors describing the entity's top risk exposures.

- a. True.
- b. False.

40. True/False? A majority of the survey respondents had a formal enterprisewide approach to risk oversight.

- a. True.
- b. False.

41. Based on survey responses, organizations who delegate risk oversight to a committee of the full board most often assigned that responsibility to the:

- a. Audit committee.
- b. Executive committee of the board.
- c. Risk committee.
- d. Strategic planning committee.
- e. None of the above.

IFRS RISK PLANNING AND CONTROLS EXECUTION (P. 34)

42. Under the SEC's proposed directives, companies would:

- a. Maintain a parallel reporting environment for approximately three years.
- b. Maintain systems to foster cross-pollination of IFRS transactions with U.S. GAAP transactions.
- c. Both a and b.
- d. Neither a nor b.

CFO 101: FIVE PREREQUISITES (P. 38)

43. Which of the following is *not* one of the five key skills required of a CFO?

- a. Technical generalist.
- b. Translator.
- c. Facilitator.
- d. Strategist.
- e. Specialist.

ASSESSING THE ALLOWANCE FOR DOUBTFUL ACCOUNTS (P. 40)

44. Accounts receivable aging:
- a. Is the technique most commonly used to value receivables.
 - b. Allows companies to generate estimates of uncollectible accounts at a specific time.
 - c. Considers the accuracy of past estimates as required by SAS no. 57.
 - d. A, b and c.
 - e. A and b but not c.
45. Using the BDE/WO technique, ratios calculated for multiple years that are substantially higher than 1.0 indicate that the entity is _____ bad debt expense.
- a. Underestimating
 - b. Overestimating
46. Using the BADA/WO technique, relatively low ratios indicate that the beginning allowance was too _____.
- a. Small
 - b. Large
47. For which of the following techniques is a standard deviation measure applicable?
- a. BDE/WO.
 - b. BADA/WO.
 - c. BADA exhaustion rate.
 - d. A, b and c.
 - e. A and b but not c.

BROKEN HOME: DIVORCE AND THE PRINCIPAL RESIDENCE (P. 52)

48. True/False? A transfer incident to divorce under section 1041 allows one party to transfer his or her interest to the other with no tax consequences (provided that neither spouse is a nonresident alien.)
- a. True.
 - b. False.
49. If a spouse or former spouse files a separate return and one, but not the other, is granted use of jointly owned property, can the interest payer deduct the interest payments even if it is no longer his or her principal residence *as long as* the arrangement is pursuant to a divorce or separation instrument?
- a. Yes.
 - b. No.

TAX MATTERS (P. 74)

50. In *Gregory T. and Kim D. Benz v. Commissioner*, the tax court ruled that the taxpayers were eligible for penalty-free IRA withdrawals under:
- a. The annuity exception.
 - b. The qualified educational expense exception.
 - c. Both a and b.
 - d. Neither a nor b.

You may print a convenient Payment Voucher Form by clicking on the following link:

<http://www.accounting-education.com/paymentvoucher.pdf>

Scan and email your answer sheet to info@accounting-education.com, or fax it to (800) 645-1099.

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

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

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.

Thank you for using our Quarterly CPE Exams!