

Accounting Education Associates
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Fourth Quarter (October - December), 2009; Course #0904

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 (Print) _____
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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 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

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Date Completed: _____

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

* 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

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

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

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, based on pilot-tests.

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; Management: 1 hour.

COURSE NUMBER: #0904 (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* – Fourth 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 OCTOBER 2009

NEWS DIGEST (P. 17)

1. Which of the following would be permitted to perform independent reviews of audits under the PCAOB's auditing standard, *Engagement Quality Review*?
 - a. A partner in the firm that issues the engagement report.
 - b. Someone from outside the firm that issues the engagement report and who is associated with a registered public accounting firm.
 - c. Someone who served as an audit engagement partner on the engagement during the previous year.
 - d. A, b or c.
 - e. A or b but not c.

CHECKLIST: DISCLOSURE CONSENT UNDER SECTION 7216 (P. 22)

2. Section 7216 applies to:
 - a. Anyone who fills out income tax forms.
 - b. Anyone who assists in preparing an income tax return.
 - c. Anyone who provides auxiliary services in connection with preparing a return.
 - d. A, b and c.
 - e. A and b but not c.

3. Section 7216 applies to _____ of tax return information.
- a. Use
 - b. Disclosure
 - c. Both a and b
 - d. Neither a nor b

CHARITABLE REMAINDER TRUST UPDATE (P. 24)

4. For tax years beginning after December 31, 2006, if a charitable remainder trust (CRT) has unrelated business taxable income (UBTI) in any year, it:
- a. Retains its tax-exempt status.
 - b. Is liable for a 100% excise tax on its UBTI.
 - c. Both a and b.
 - d. Neither a nor b.
5. A charitable remainder trust's unrelated business taxable income is taxed:
- a. When it is incurred by the CRT.
 - b. When it is paid to the annuity or unitrust recipient.
 - c. Both a and b.
 - d. Neither a nor b.
6. Revenue Ruling 2008-41, 2008-30 IRB 170, (addressing *pro rata* division of a CRT with two or more income recipients into new trusts) states that:
- a. CRTs may generally be divided without the termination tax or other penalties.
 - b. Bases of assets may not be carried over to the trusts.
 - c. Both a and b.
 - d. Neither a nor b.
7. The IRS ruled that the *pro rata* division of a charitable remainder trust is:
- a. A taxable expenditure to the original CRT.
 - b. Subject to the excise tax of section 4945(a).
 - c. Both a and b.
 - d. Neither a nor b.

THE GENERATION-SKIPPING TRANSFER TAX: A QUICK GUIDE (P. 30)

8. A taxpayer's generation-skipping transfer tax (GSTT) exemption *may* be applied to:
- a. Direct skips.
 - b. Indirect skips (with limitations).
 - c. Both a and b.
 - d. Neither a nor b.
9. Will grandchildren who might be skip persons to their grandparent be treated as skip persons if their parents die before the grandparent?
- a. Yes.
 - b. No.
10. Which of the following constitute(s) a direct skip?
- a. A grandparent writing a check to a grandchild.
 - b. An outright bequest to a skip person.
 - c. Both a and b.
 - d. Neither a nor b.
11. Transfers in trust can occur:
- a. By a taxable distribution from a trust to a skip person.
 - b. By a taxable termination.
 - c. Either a or b.
 - d. Neither a nor b.
12. A GSTT inclusion rate of 0 means that no part of the interest in trust is subject to the GSTT.
- a. True.
 - b. False.
13. Late allocations of the GSTT exemption:
- a. Are allowed by the IRS.
 - b. Are based on the value of the transfer at the date of transfer.
 - c. Both a and b.
 - d. Neither a nor b.

14. A reverse QTIP election:

- a. Is made on the first-to-die spouse's timely filed estate tax return.
- b. Is usually only done where the trustee is able to create both an exempt and nonexempt QTIP trust.
- c. Cannot be undone.
- d. All of the above.
- e. A and b but not c.

RECOVERY ACT REMINDERS FOR 2009 (P. 38)

15. The American Recovery and Reinvestment Act (ARRA) of 2009 allows eligible small businesses to carry back a 2008 net operating loss up to _____ years.

- a. Two
- b. Three
- c. Four
- d. Five
- e. Six

THE U.S. ECONOMIC CRISIS: ROOT CAUSES AND THE ROAD TO RECOVERY (P. 42)

16. Which of the following did the authors *not* identify as a cause of the economic crisis?

- a. Record low savings rates.
- b. Unregulated over-the-counter derivatives markets.
- c. Huge budget deficits.
- d. Excessive consumption.
- e. Huge current account deficits.

INTERPRETING IFRS (P. 60)

17. IFRIC deals with _____ questions.

- a. Interpretation
- b. Implementation
- c. Application
- d. A, b and c
- e. A and b but not c

TECHNOLOGY Q & A (P. 78)

18. Which of the following computers should be defragged?

- a. Regular hard-drive computers.
- b. Ultralite notebooks with solid-state drivers.
- c. Both a and b.
- d. Neither a nor b.

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

NEWS DIGEST (P. 19)

19. The PCAOB's recently published staff questions and answers about references to authoritative accounting guidance in PCAOB standards:

- a. Provides guidance on the auditor's responsibilities regarding the FASB Accounting Standards Codification.
- b. Reminds auditors to look to the PCAOB for authoritative U.S. GAAP rather than SEC rules.
- c. Are rules of the PCAOB.
- d. All of the above.
- e. A and b but not c.

WINDOWS 7: IS IT RIGHT FOR YOU? (P. 32)

20. Windows 7 enables PCs to use up to _____ gigabytes of random access memory (RAM).

- a. 32
- b. 64
- c. 96
- d. 128
- e. 256

21. Which version(s) of Windows 7 offer(s) BitLocker?

- a. Windows 7 Enterprise.
- b. Windows 7 Ultimate.
- c. Windows 7 Professional.
- d. A, b and c.
- e. A and b but not c.

22. Which version(s) of Windows 7 enable(s) secure remote access to a corporate network without the help of virtual private network software?

- a. Windows 7 Enterprise.
- b. Windows 7 Ultimate.
- c. Windows 7 Professional.
- d. A, b and c.
- e. A and b but not c.

23. Compared to Vista, Windows 7:
- Boots faster.
 - Provides longer battery life.
 - Performs better with existing equipment.
 - A, b and c.
 - A and b but not c.
24. Which of the following provide(s) a protected mode for Internet Explorer 7 and 8 that prevents hackers from installing files or changing settings on your PC?
- Windows 7.
 - Vista.
 - XP.
 - A, b and c.
 - A and b but not c.

BALANCING GOVERNMENTAL BUDGETS UNDER GASB 54 (P. 42)

25. Under GASB Statement no. 54, which of the following is at the top of the hierarchy of fund balance categories?
- Committed fund balance.
 - Restricted fund balance.
 - Nonspendable fund balance.
 - Unassigned fund balance.
 - Assigned fund balance.
26. If a government fails to establish a policy on the order in which unrestricted resources are to be used, the default approach provides that _____ should be reduced first.
- Committed fund amounts
 - Unassigned fund amounts
 - Nonspendable fund amounts
 - Assigned fund amounts
 - Restricted fund amounts
27. Under GASB 54, negative amounts may be shown for _____ fund balances.
- Restricted
 - Committed
 - Assigned
 - Any of the above
 - None of the above

HIGHLIGHTS OF IFRS RESEARCH (P. 48)

28. Research done by Elaine Henry, Stephen Lin, and Ya-Wen Yang found _____ to be the primary difference(s) between U.S. GAAP and IFRS reported net income.
- Goodwill
 - Pensions
 - Research and development costs
 - All of the above
 - A and b but not c
29. Expected benefits of conversion from U.S. GAAP to IFRS include:
- Improved financial reporting transparency.
 - Reporting consistency.
 - Enhanced global competition.
 - All of the above.
 - A and b but c.
30. Thomas Jeanjean and Herve Stolowy suggest that the effects of the standard-setting bodies should focus on:
- Enhancing IFRS adoption reporting incentives.
 - Strict enforcement.
 - Harmonizing accounting standards.
 - All of the above.
 - A and b but not c.

TAX CONSEQUENCES OF MORTGAGE DISCHARGE (P. 54)

31. Cancellation of debt (COD) ordinary income is unlikely to occur as a result of foreclosure when the debt is:
- Recourse.
 - Nonrecourse.
 - Either a or b.
 - Neither a nor b.
32. With a recourse note, the sale price of property lost through foreclosure is the:
- Fair market value of the property.
 - Balance owed to the lender.
 - Greater of a or b.
 - Lesser of a or b.
33. The tax benefits associated with loss of property owned by an LLC or other flow-through entity through a bankruptcy are greater when the bankruptcy filing is at the _____ level.
- Flow-through entity
 - Individual owner/member

“UNFORESEEN CIRCUMSTANCES” EXCLUSIONS FROM GAIN ON SALE OF HOME (P. 62)

34. Taxpayers who don't meet the principal residence conditions may still qualify for a partial gain exclusion if the sale or exchange is because of:
- a. A change in health.
 - b. A change in place of employment.
 - c. Unforeseen circumstances.
 - d. A, b or c.
 - e. A or b but not c.

TAX MATTERS (P. 70)

35. In *Southgate Master Fund LLC v. U.S.*, a district court held that:
- a. The transactions lacked economic substance.
 - b. The transactions' basis was artificially inflated.
 - c. A 20% accuracy-related penalty was justified.
 - d. All of the above.
 - e. None of the above.
36. For tax years beginning after December 31, 2008, the Fostering Connections to Success and Increasing Adoptions Act of 2008:
- a. Requires a qualifying child (QC) to be younger than the individual claiming a QC exemption for the child.
 - b. States that a married dependent cannot be a QC if he or she files a joint return with his or her spouse, unless the return is filed only as a claim for a refund.
 - c. Requires that a QC for whom a taxpayer claims the child tax credit must be one for whom the taxpayer claims a dependency exemption.
 - d. All of the above.
 - e. A and b but not c.

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

NEWS DIGEST (P. 17)

37. EITF Issue no. 08-01 requires entities to:
- a. Allocate revenue using the relative-selling price method.
 - b. Expand their disclosure for multiple-deliverable revenue arrangements.
 - c. Use the residual method.
 - d. All of the above.
 - e. A and b but not c.

CHECKLIST: CPAs CAN HELP BUILDERS INCREASE PROFITS, CASH FLOW (P. 24)

38. Which of the following statements is / are true of American Recovery Capital loans?
- a. The maximum loan amount is \$50,000.
 - b. The first payment is deferred for 12 months.
 - c. The loan is interest-free for ten years.
 - d. All of the above.
 - e. A and b but not c.

DETECTING CIRCULAR CASH FLOW (P. 26)

39. In the case study featured in the article, the delivery of the \$85,000 check into the bank's lockbox reduced:
- a. Accounts receivable by \$85,000.
 - b. The loan balance by \$85,000.
 - c. The borrowing capacity under the revolving line of credit.
 - d. All of the above.
 - e. A and b but not c.
40. Which of the following could indicate a circular flow of cash scheme?
- a. Unfamiliar customers comprising a significant amount of sales.
 - b. Unfamiliar vendors comprising a significant amount of purchases.
 - c. Unfamiliar customers with addresses similar to vendors or management.
 - d. All of the above.
 - e. A and b but not c.

RISK-BASED AUDIT BEST PRACTICES (P. 32)

More information at www.coso.org

41. Auditors are required to evaluate the design and implementation of internal control to properly identify and assess risk when performing audits of:
- a. Publicly-traded entities whose shares are listed on the NYSE.
 - b. Publicly-traded entities whose shares are listed on NASDAQ.
 - c. Small privately-owned companies.
 - d. All of the above.
 - e. A and b but not c.

42. The COSO process starts with an analysis of:
 a. Risks. b. Financial statements. c. Controls. d. Assertions. e. Control objectives.
43. The first step in the COSO process involves identifying all of the following *except* the:
 a. Significant classes of transactions. c. Control objectives.
 b. Material accounts. d. Relevant assertions related to the accounts
44. The final step in the COSO process is the identification of:
 a. What can go wrong. d. Significant classes of transactions.
 b. Control objectives. e. Necessary controls.
 c. Material accounts.

SELECTING THE RIGHT INVESTIGATIVE RESOURCE (P. 40)

45. True/False? The first step in the investigative decision process is assessing possible materiality.
 a. True. b. False.
46. True/False? The final step in the investigative decision process is performing a cost-benefit analysis.
 a. True. b. False.

AN UPDATE ON ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (P. 45)

47. True/False? The term “tax position” encompasses the probability that a tax return will not be audited.
 a. True. b. False.
48. The evaluation of a tax position must include:
 a. Measurement.
 b. Whether it is “more-likely-than-not” that the tax position will be sustained upon examination.
 c. Whether the tax position has a “realistic possibility” of being sustained upon examination.
 d. All of the above.
 e. A and b but not c.

IFRS FOR SMES: THE NEXT STANDARD FOR U.S. PRIVATE COMPANIES? (P. 50)

49. If state laws and regulations permit, AICPA members may report on financial statements prepared in conformity with:
 a. IFRS. c. Either a or b.
 b. IFRS for SMEs. d. Neither a nor b.
50. IFRS for SMEs is intended to be used by:
 a. A for-profit entity with no publicly-traded debt or equity that publishes general-purpose financial statements for external users.
 b. A for-profit entity whose stock trades in a public market.
 c. A not-for-profit organization.
 d. All of the above.
 e. A and b but not c.

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

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