

Accounting Education Associates
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
First Quarter (January - March), 2010; Course #1001

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 March 31, 2012

* 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: #1001 (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* – First Quarter 2010

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 JANUARY 2010

APPLYING FOR A PRIVATE LETTER RULING (P. 21)

1. Which of the following actions should be taken before applying for a private letter ruling?
 - a. Confirm that the IRS has not declared your subject a “no ruling” topic.
 - b. Conduct research to convince the IRS to rule favorably.
 - c. Call an IRS employee who deals in your subject matter to discuss your proposed ruling request.
 - d. A, b and c.
 - e. A and b but not c.

TECHNOLOGY IS A CORNERSTONE OF SUCCESSFUL CPA FIRMS (P. 22)

2. Which of the following paperless strategy tools was used by the largest percentage of accounting firms in a survey conducted by the Opinion Research Center?
 - a. Multiple monitors.
 - b. Document management systems.
 - c. Scanning tools to organize their documents.
 - d. Client portals.
 - e. None of the above.

2010: THE YEAR OF THE ROTH CONVERSION? (P. 28)

3. In 2010, which of the following taxpayers may be eligible to convert a traditional IRA to a Roth IRA?

- a. Taxpayers with AGI of over \$100,000.
- b. Married taxpayers filing separately.
- c. Both a and b.
- d. Neither a nor b.

4. For Roth IRA earnings withdrawals to be free of tax or penalty:

- a. The taxpayer must be at least 59 ½.
- b. The taxpayer must have held the Roth account for at least five years.
- c. Both a and b.
- d. Neither a nor b.

5. True/False? Roth conversions may be subject to the 10% tax penalty on early or excess distributions.

- a. True.
- b. False.

6. Minimum distribution requirements apply to:

- a. Traditional IRAs.
- b. Roth IRAs.
- c. Both a and b.
- d. Neither a nor b.

7. IRC Section 408A(d)(6) allows taxpayers to recharacterize Roth conversions within _____ months of the tax year return due date.

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

8. Taxpayers who convert traditional IRAs to Roth IRAs in 2010:

- a. Are required to include the IRA distribution in 2010 taxable income.
- b. *Must* spread income recognition from the conversion over years 2011 and 2012.
- c. *May* spread income recognition from the conversion over tax years 2011 and 2012.
- d. Are not liable for taxation on the IRA distributions as long as a new Roth account is established.
- e. None of the above.

9. In 2010, AGI limits apply to contributions to:

- a. Roth IRAs.
- b. Nondeductible traditional IRAs.
- c. Both a and b.
- d. Neither a nor b.

10. The _____ of an IRA is an “all-or-nothing” proposition.

- a. Conversion
- b. Recharacterization
- c. Either a or b
- d. Neither a nor b

TAX SEASON KICKS OFF (P. 32)

11. For tax years beginning in 2009, the maximum amount of Section 179 expensing is:

- a. \$75,000.
- b. \$100,000.
- c. \$125,000.
- d. \$250,000.
- e. \$300,000.

12. The American opportunity tax credit covers up to _____ year(s) of post-secondary education.

- a. one
- b. two
- c. three
- d. four
- e. None of the above

13. For purposes of the Worker Act credit, would taxpayers who had owned and lived in their old house for any five consecutive years within the preceding eight years be treated as first-time homebuyers?

- a. Yes.
- b. No.

WHAT'S YOUR FRAUD IQ? (P. 34)

14. AU section 316 , *Consideration of Fraud in a Financial Statement Audit*, requires that the auditor:

- a. Have knowledge of the company's business.
- b. Demonstrate professional skepticism.
- c. Use a fraud risk factor checklist.
- d. A, b and c.
- e. A and b but not c.

15. Which of the following is *excluded* in the calculation of the quick ratio?
- a. Inventory.
 - b. Accounts receivable.
 - c. Cash.
 - d. Marketable securities.
 - e. None of the above.

TAX PRACTICE CORNER (P. 56)

16. IRA tax-free rollovers generally require that all distributions from an IRA be deposited in another such account within _____ days.
- a. 15
 - b. 30
 - c. 60
 - d. 90
 - e. 120

TAX MATTERS (P. 58)

17. Which of the following are allowable S corporation shareholders?
- a. Individuals.
 - b. Estates.
 - c. Roth IRAs.
 - d. A, b and c.
 - e. A and b but not c.

18. In *Estate of Farnam v. Commissioner*, the Eighth Circuit Court of Appeals ruled that the definition of a qualified family-owned business interest in section 2057(e)(1) included:
- a. Equity or other ownership interests.
 - b. Unsecured loans.
 - c. Both a and b.
 - d. Neither a nor b.

QUESTIONS 19 – 36 RELATE TO THE *Journal of Accountancy* OF FEBRUARY 2010

NEWS DIGEST (P. 11)

19. The FDIC's required prepaid assessment:
- a. Immediately improved the FDIC's liquidity.
 - b. Was immediately charged against banks' earnings on December 31, 2009.
 - c. Increased the Deposit Insurance Fund (DIF) balance.
 - d. A, b and c.
 - e. A and b but not c.
20. IFRS 9, *Financial Statements*:
- a. Replaced IAS 39, *Financial Instruments: Recognition and Measurement*.
 - b. Uses a single approach to determine whether a financial asset is measured at amortized cost or fair value.
 - c. Requires companies to use a single impairment method.
 - d. A, b and c.
 - e. A and b but not c.
21. Which of the following currently (i.e., as of the time of the publication of the article) use(s) an incurred loss model for the impairment of financial assets?
- a. IFRS.
 - b. U. S. GAAP.
 - c. Both a and b.
 - d. Neither a nor b.

CROSS-BORDER TAX ISSUES (P. 16)

22. For tax purposes, interest accrued to foreign affiliates is usually deductible:
- a. When accrued.
 - b. When paid.

IMPROVE TAX TRACKING WITH AUTOMATED WORKFLOW (P. 18)

23. Tax preparation software:
- a. Allows easy delegation and accountability.
 - b. Provides warnings and reminders of pending due dates.
 - c. Is efficient in offices with several staff persons.
 - d. Tracks due dates of notices, audits, payroll and sales tax.
 - e. None of the above.

MANAGING S CORPORATION AT-RISK LOSS LIMITATIONS (P. 26)

24. Losses passed through to S corporation shareholders are limited by:
- a. The basis limitations of IRC section 1366(d).
 - b. The at-risk limitations of section 465.
 - c. The passive activity loss limitations of section 469.
 - d. All of the above.
 - e. A and b but not c.

25. Which of the following does *not* provide an S corporation shareholder with at-risk basis?
- Contributions to capital of the corporation.
 - Unencumbered funds lent by the shareholder or funds borrowed by the shareholder in a recourse obligation for use in the corporation's activities.
 - All monies borrowed by the shareholder on a nonrecourse basis secured with pledged property with a fair market value of zero.
 - Shares received as compensation equal to the value of the S corporation stock received.
 - Loans secured by real property used in the activity of holding real estate.
26. Shareholders may increase their at-risk basis by:
- Increasing the amount they guarantee on behalf of the corporation.
 - Signing a promissory note with recourse to a family member who is not a shareholder.
 - Either a or b.
 - Neither a nor b.
27. For purposes of increasing an S corporation's at-risk loss limitation, shareholders may generally aggregate more than one activity in which they:
- Actively participate.
 - Do not actively participate.
 - Either a or b.
28. True/False? S corporation shares received as compensation provides at-risk basis to an S corporation shareholder.
- True.
 - False.
29. Which of the following factors indicate active participation?
- Participation in decisions involving the operation or management of the trade or business.
 - Performing services for the trade or business.
 - Authorization only to discharging the manager of the trade or business.
 - A, b and c.
 - A and b but not c.

CLIENT PORTALS: A SECURE ALTERNATIVE TO E-MAIL (P. 36)

30. Client portals:
- Are Web-based secure online storage areas.
 - Provide a secure way for accountants to post clients' completed tax returns or other financial information.
 - Provide a secure way for clients to send source documents, payroll information including Social Security numbers to accountants.
 - A, b and c.
 - A and b but not c.

WHAT'S NEW FOR CPAs IN OFFICE 2010? (P. 40)

31. Office 2010 software, scheduled for release in June 2010, will run in:
- Windows 7.
 - Vista.
 - XP.
 - A, b or c.
 - A or b but not c.

AVOIDING COMMON ERRORS OF XBRL IMPLEMENTATION (P. 46)

32. Which of the following represents the correct sequence of the steps in the XBRL implementation process?
- Tagging, Mapping, Creating/Validating, Extensions.
 - Mapping, Extensions, Tagging, Creating/Validating.
 - Creating/Validating, Mapping, Tagging, Extensions.
 - Tagging, Creating/Validating, Mapping, Extensions.
 - None of the above.
33. An income statement element being included in the balance sheet is an example of a / an _____ error.
- Tagging
 - Mapping
 - Creating/Validation
 - Extensions
 - None of the above

TAX PRACTICE CORNER (P. 54)

34. The residential energy efficient property (REEP) credit in IRC section 25D applies to _____ installed in U.S. residences that are used by the taxpayer.

- a. Solar water heating
- b. Solar electric systems
- c. Both a and b
- d. Neither a or b

35. Which of the following expenditures may qualify for the REEP credit?

- a. The costs of the system itself.
- b. The costs of piping and wiring to connect the system to the home.
- c. The costs of systems used to heat swimming pools and hot tubs.
- d. A, b and c.
- e. A and b but not c.

FROM *The Tax Adviser* (P. 62)

36. Reporting is required for an employee stock purchase plan (ESPP) where the exercise price is:

- a. Less than 100% of the value of the stock on the date of the grant.
- b. Not fixed or determinable on the date of the grant.
- c. Either a or b.
- d. Neither a nor b.

**QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF MARCH 2010
COUNTDOWN TO CONVERGENCE (P. 24)**

37. As of March 2010, which of the following Memorandum of Understanding projects has (have) been completed?

- a. Business combinations.
- b. Intangible assets.
- c. Revenue recognition.
- d. A, b and c.
- e. A and b but not c.

38. Under the IASB model (IFRS 9) model, the scope of the financial instruments standard applies to:

- a. Liabilities.
- b. Assets.
- c. Both a and b.
- d. Neither a nor b.

39. Guidance in ASC Update no. 2009-13:

- a. Requires entities to allocate revenues using the relative-selling-price method.
- b. Significantly expands the disclosure requirements for multiple-deliverable revenue arrangements.
- c. Requires the use of the residual method.
- d. A, b and c.
- e. A and b but not c.

THE ESOP EXIT STRATEGY (P. 32)

40. An Employee Stock Ownership Plan and Trust (ESOP) owns the stock of the plan sponsor company for the beneficial interests of:

- a. The employees.
- b. Other legal entities such as a partnership or LLC.
- c. Both a and b.
- d. Neither a nor b.

41. Is favorable capital gain treatment available for sales of S corporations where an IRC section 1042 election is not an option?

- a. Yes.
- b. No.

42. C corporations can deduct dividends paid on ESOP stock by:

- a. Paying the dividend directly to the ESOP participants.
- b. Applying dividends directly to loan principal.
- c. Either a or b.
- d. Neither a nor b.

THE CPA'S ROLE IN QUANTIFYING POST-ACQUISITION DISPUTE DAMAGES (P. 38)

43. Which of the following issues would be considered a "post-closing" factor instead of a "contemporaneous factor?"

- a. Which period(s) does the disputed item impact?
- b. What impact does the item have on the company's cash flows?
- c. Is the item in dispute a working capital or indemnity claim, or both?
- d. What factors influenced subsequent financial performance?
- e. What were the seller's alternatives to a sale to the buyer?

44. Which of the following four kinds of knowledge is *not* considered a core competency for CPAs who want to become involved in working capital disputes?

- a. Experience as a testifying expert.
- b. Knowledge of the law.
- c. Knowledge of valuation analysis.
- d. Fundamental expertise in GAAP.

INTERNAL CONTROL: TEST YOUR KNOWLEDGE (P. 46)

45. True/False? Enterprise Risk Management is a top-down view of the key risks confronting an organization.

- a. True.
- b. False.

46. True/False? In implementing the monitoring component of the *COSO Internal Control- Integrated Framework*, an independent auditor can monitor the client's system of internal control.

- a. True.
- b. False.

NAVIGATING THE R & D TAX CREDIT (P. 50)

47. Under the alternative simplified credit (ASC) method, taxpayers may claim research credits when research costs _____ when compared to prior years.

- a. Stay the same
- b. Decline
- c. Either a or b
- d. Neither a nor b

48. The _____ method(s) of calculating the credit use(s) a base period that can reach back as far as 1984.

- a. Regular research credit (RRC)
- b. Alternate simplified credit (ASC)
- c. Both a and b
- d. Neither a nor b

TAX MATTERS (P. 58)

49. True/False? In the *Enbridge Energy Co. v. U.S.*, the Fifth Circuit Court of Appeals agreed with the taxpayer that K-Pipe served a legitimate business purpose.

- a. True.
- b. False.

NOL CARRYBACKS AND THE STATUTE OF LIMITATIONS (P. 64)

50. The IRS may assess a deficiency for additional tax for the year to which the taxpayer applies the carryback if the deficiency assessed is _____ to the carryback claim.

- a. Related
- b. Unrelated
- c. Either a or b
- d. Neither a nor b

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You may email, fax or mail your answer sheet to AEA. Our email address: info@accounting-education.com

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