

**Accounting Education Associates**  
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**QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition***  
**Second Quarter (April - June), 2010; Course #1002**

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?

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Date Completed: \_\_\_\_\_

**For CPE credit, this exam must be completed by June 30, 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](mailto: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

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**\*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: #1002** (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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## **Quarterly CPE Exam on the *Journal of Accountancy* – Second 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 APRIL 2010**

### **NEWS DIGEST (P. 11)**

1. For companies that file financial reports on a calendar-year basis, Auditing Standard no. 7, *Engagement Quality Review*, is initially applicable for the quarter ending:
  - a. March 31, 2010.
  - b. June 30, 2010.
  - c. September 30, 2010.
  - d. December 31, 2010.
  - e. March 31, 2011.

### **CHECKLIST: LIFE INSURANCE CHECKUP (P. 14)**

2. A life insurance policy owned by \_\_\_\_\_ will be included in the insured's estate for estate tax purposes.
  - a. The insured
  - b. Any entity other than the insured
  - c. Either a or b
  - d. Neither a nor b

### TAX FROM THE TOP (P. 16)

3. The IRS has announced plans to require that \_\_\_\_\_ must pass an examination focusing on tax issues before preparing tax returns for a fee.
- a. CPAs
  - b. Lawyers
  - c. Both a and b
  - d. Neither a nor b
4. According to Doug Shulman, Commissioner of the IRS, the IRS is \_\_\_\_\_ to ask for an entity's full tax accrual workpapers.
- a. Entitled
  - b. Going
  - c. Both a and b
  - d. Neither a nor b

### THE SEC'S IFRS WORK PLAN (P. 22)

5. True/False? In its February 2010 release, the SEC established a deadline of 2014 for IFRS adoption.
- a. True.
  - b. False.
6. The SEC's current position is to \_\_\_\_\_ early adoption of the proposed IFRS rules.
- a. Not allow
  - b. Permit
7. True/False? The SEC's current position rules out the possibility that issuers may be permitted to choose between the use of IFRS or U.S. GAAP.
- a. True.
  - b. False.

### TECHNOLOGY CONSIDERATIONS FOR CONVERTING TO IFRS (P. 26)

8. IFRS accounting for share-based compensation is very similar to the \_\_\_\_\_ concept of accounting for fixed assets.
- a. Componentization
  - b. Composite

### APPLYING FORENSIC SKEPTICISM TO LOST PROFITS VALUATION (P. 32)

9. Which of the following four methodologies was employed in the case study presented in the article?
- a. The comparable method.
  - b. The "but for" method.
  - c. The before-and-after method.
  - d. The breach-of-contract method.
  - e. None of the above.
10. In the case study, the forensic accountant confirmed that:
- a. The amended payroll tax return had been filed.
  - b. The IRS had cashed BBB's check for the additional taxes associated with the amended payroll tax return.
  - c. Both a and b.
  - d. Neither a nor b.
11. As a result of forensic investigation and analysis, \_\_\_\_\_ was / were included in the final loss claim.
- a. The chef
  - b. The servers
  - c. The business manager
  - d. A, b and c
  - e. A and b but not c

### PROJECT MANAGEMENT FOR ACCOUNTANTS (P. 38)

12. Which of the following is *not* one of the three interrelated variables of the "Triangle of Truth?"
- a. Cost.
  - b. Time.
  - c. Quality.
  - d. Scope.
13. True/False? An engagement letter is unnecessary when a scope letter is prepared.
- a. True.
  - b. False.

### TAX TREATMENT OF ADOPTION EXPENSES (P. 44)

14. For taxpayers with modified adjusted incomes of \$202,520, the maximum 2010 federal tax credit for qualified adoption expenses paid or incurred is \_\_\_\_\_ per child.
- a. \$24,340
  - b. \$18,255
  - c. \$12,170
  - d. \$6,085
  - e. \$0

15. For 2010, the adoption expense credit is:
  - a. Nonrefundable.
  - b. Allowed against the alternative minimum tax.
  - c. May be carried forward up to five years from the year in which it arose.
  - d. A, b and c.
  - e. A and b but not c.
  
16. Which of the following can qualify as adoption expenses?
  - a. Attorney fees.
  - b. Court costs.
  - c. Expenses for the adoption of a stepchild by a stepparent.
  - d. A, b and c.
  - e. A and b but not c.

**TAX MATTERS (P. 51)**

17. In *Estate of Samuel P. Black Jr. v. Commissioner*, the Tax Court held that the family limited partnership (FLP):
  - a. Fulfilled a legitimate and significant nontax purpose.
  - b. Allowed a discounted value of an interest in the FLP.
  - c. Conducted an active business.
  - d. A, b and c.
  - e. A and b but not c.

**FROM *The Tax Adviser*: ACQUIRING BASIS IN S CORP SHAREHOLDER LOANS (P. 55)**

18. For back-to-back loans, all payments to make and repay loans should go to and from the S corporation and:
  - a. Shareholder.
  - b. Related party.

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

**CHANGES IN TAX PRACTICE STANDARDS AFFECT CPAs (P. 24)**

19. Which standard does IRC Section 6694 currently require for tax positions unless they are adequately disclosed (for other than tax shelter or reportable transactions)?
  - a. Realistic possibility.
  - b. Realistic probability.
  - c. Substantial authority.
  - d. More likely than not.
  
20. Which standard applies to tax shelter and reportable transactions?
  - a. Realistic possibility.
  - b. Realistic probability.
  - c. Substantial authority.
  - d. More likely than not.
  
21. The thrust of Section 6694 is that \_\_\_\_\_ may be liable for preparer penalties.
  - a. One preparer per position
  - b. One preparer per return
  
22. Of the following, who is / are subject to Section 6694?
  - a. The person signing the return.
  - b. Any person who prepares a substantial portion of the return.
  - c. Any person who prepares the return who is neither compensated nor expects to be compensated.
  - d. A, b and c.
  - e. A and b but not c.
  
23. Section 6694 applies to forms \_\_\_\_\_.
  - a. 1040
  - b. 1120
  - c. 941
  - d. A, b and c
  - e. A and b but not c

**CHANGES ON TAP FOR COMPILATION AND REVIEW STANDARDS (P. 32)**

24. An accountant who only performs compilations is subject to which sections of SSARS no. 19?
  - a. Framework.
  - b. Compilation.
  - c. Review.
  - d. A, b and c.
  - e. A and b but not c.

25. SSARS no. 19 \_\_\_\_\_ an accountant to disclose the reasons for a lack of independence in a compilation report.
- a. Permits  
b. Requires  
c. Both a and b  
d. Neither a nor b
26. For reviews, SSARS no. 19 requires that the accountant:
- a. Perform analytical procedures and inquiries.  
b. Use professional judgment in determining the specific procedures and tailor these procedures accordingly.  
c. Perform procedures beyond analytical procedures and inquiries.  
d. A, b and c.  
e. A and b but not c.
27. For \_\_\_\_\_ engagements, SSARS no. 19 requires that accountants establish a written understanding with the client's management regarding the services to be performed.
- a. Compilation  
b. Review  
c. Both a and b  
d. Neither a or b
28. SSARS no. 19 is effective for compilations and reviews of financial statements for companies for periods ending:
- a. December 31, 2011.  
b. December 31, 2010.  
c. June 30, 2010.  
d. A, b and c.  
e. A and b but not c.

**RETAINING TOP TALENT STILL A REQUIREMENT FOR FIRMS (P. 38)**

29. To demonstrate management's commitment, the authors recommend that firms establish a retention department as an entirely separate initiative.
- a. True.  
b. False.

**WHAT'S YOUR FRAUD IQ? (P. 50)**

30. Benford's law deals with:
- a. Identifying behavioral red flags exhibited by fraudsters.  
b. Proper techniques for securing computers believed to contain evidence of fraud.  
c. Patterns within multidigit numbers.  
d. Techniques of identifying fraudulent accounts payable transactions.  
e. Ways to secure documents thought to be altered.
31. True/False? The first step that should be taken with a desktop computer that is suspected to have been used in a fraud is to unplug it from its power source.
- a. True.  
b. False.

**TEST YOUR KNOWLEDGE OF INTERNATIONAL STANDARDS (P. 58)**

32. Worldcorp's ending inventory had a fair value of \$190,000, historical cost of \$200,000, current replacement cost of \$140,000, net realizable value (NRV) of \$180,000, and NRV less normal profit margin of \$170,000. Under IFRS, Worldcorp should report inventory of \$ \_\_\_\_\_ on its balance sheet.
- a. \$200,000  
b. \$190,000  
c. \$180,000  
d. \$170,000  
e. \$140,000

**HEALTH CARE REFORM RESHAPES TAX CODE (P. 60)**

33. During the phase-in years (2010 through 2013), the Patient Protection Act provides tax credits of *up to* \_\_\_\_\_ of the employer's eligible premium expense.
- a. 20%  
b. 25%  
c. 30%  
d. 35%  
e. 50%
34. The new Medicare tax on investment income for certain taxpayers applies to tax years beginning in:
- a. 2014.  
b. 2013.  
c. 2012.  
d. 2011.  
e. 2010.

**TAX MATTERS (P. 70)**

35. In *Lee E. Newell v. Commissioner*, the Tax Court found that Newell:
- a. Had limited liability.  
b. Managed the business' day-to-day operations.  
c. Was entitled to deductions.  
d. A, b and c.  
e. A and b but not c.

36. Which of the following factors led to the Fourth Circuit Court's decision in *Charles B. Erwin v. U.S.*?
- Erwin had always been secretary, treasurer, vice president and a director of the corporation.
  - Erwin exercised significant supervisory authority over the management team directly responsible for payroll issues and took control of all financial operations upon learning of the payroll tax issues.
  - Erwin was a signatory on the bank accounts on the bank accounts during the four quarters.
  - A, b and c.
  - A and b but not c.

## QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF JUNE 2010

### KEEPING FRAUD IN THE CROSS HAIRS (P. 20)

37. According to a study done by the Association of Certified Fraud Examiners (ACFE), the largest number of frauds were perpetrated by employees of the \_\_\_\_\_ department.
- Executive/upper management
  - Operations
  - Customer service
  - Accounting
  - Sales
38. The ACFE study found that \_\_\_\_\_ was / were the largest source of fraud detection.
- Internal audits
  - Tips
  - External audits
  - Management review
  - Account reconciliation
39. According to the ACFE study, the largest percentage of occupational fraud was associated with fraud cases involving:
- \$10,000 - \$49,999.
  - \$50,000 - \$99,999.
  - \$100,000 - \$499,999.
  - \$500,000 - \$999,999.
  - \$1 million and up.
40. True/False? Textual analytics can be used as a fraud-detection method using software to find key words and phrases in e-mails that might indicate the presence of fraud.
- True.
  - False.

### NEW GAAP FOR MULTIPLE DELIVERABLES (P. 30)

41. True/False? In multiple-element sales, Accounting Standards Update 2009-13 ("ASU 2009-13") requires that, for separation, an element must have an objective and fair value.
- True
  - False.
42. If VSOE does not exist, ASU 2009-13 requires the use of:
- Relative fair values (RFV).
  - The residual method.
  - Third party objective evidence (TPOE)
  - The reverse residual method.
  - None of the above.
43. Under ASU 2009-13, if neither vendor specific objective evidence nor third party objective evidence is available, management will use an allocation based on:
- Estimated selling prices.
  - Relative fair value.
  - Residual value.
  - Reverse residual method.
  - None of the above.
44. The revenue recognition changes of ASU 2009-13 are effective prospectively for revenue arrangements entered into or materially modified in fiscal periods beginning on or after: (Pick one)
- December 15, 2009.
  - March 15, 2010.
  - June 15, 2010.
  - September 15, 2010.
  - December 15, 2010.
45. True/False? Contracts created before the effective date of ASU 2009-13 must apply the new standards.
- True.
  - False.

**TEST YOUR KNOWLEDGE OF PROFESSIONAL ETHICS (P. 36)**

46. A CPA may accept commissions for referring the owner of an attest client to an insurance company:
- As long as the CPA discloses the commissions to the owner.
  - Without disclosing the commissions to the owner.
  - Under no circumstances.

**THE RECOVERY ACT: AN AUDITEE'S PERSPECTIVE (P. 48)**

47. A federal award (as used in the definition of a single audit) includes:
- Federal financial assistance received directly from federal awarding agencies.
  - Federal cost-reimbursement contracts that are received indirectly from pass-through entities.
  - Procurement contracts under grants or contracts, used to buy goods or services from vendors.
  - A, b and c.
  - A and b but not c.

**TAX MATTERS (P. 78)**

48. In *Stadnyk v. Commissioner*, the Sixth Circuit concluded that Mrs. Stadnyk's settlement:
- Was associated with a personal physical injury.
  - Should be nontaxable.
  - Both a and b.
  - Neither a nor b.
49. In a case dealing with Quality Stores, the District Court for the Western District of Michigan ruled that \_\_\_\_\_ were exempt from FICA withholding requirements.
- All cash and noncash remuneration paid to an employee for services performed for an employer.
  - The severance payments.
  - Both a and b.
  - Neither a nor b.

**TECHNOLOGY Q&A (P. 90)**

50. The DeskPins program works in:
- Windows XP.
  - Windows 7.
  - Both a and b.
  - Neither a nor b.

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