

Accounting Education Associates
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QUARTERLY CPE EXAM ON THE *Journal of Accountancy* - Web Edition
Fourth Quarter (October - December), 2010 (Course # 1004)

A Formal CPE Course using the JoA as Reference Material
Recommended CPE Credit: 7 Hours (Exceptions noted on next page)
Subject division: Tax 3; A/A 2; Regulatory Ethics 1; Computer Science 1.

Please print all information and mark answers clearly in dark ink:

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

To which state board(s), agencies, or associations do you report CPE?

INSTRUCTIONS:

1. Complete but do not submit all the Assignments in the **Supplementary Study Packet** available at our Web site: www.accounting-education.com.
2. Answer the 60 multiple-choice questions by selecting the one **best** answer. **Blacken** the letter; do **not** circle. A score of 70 or better is required.
3. Please complete the required course evaluation below.
4. Scan/email, fax or snail mail your answer sheet to AEA for grading.
5. For CPE credit, please be sure your name and address above are legible.
6. *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. The course met the objectives described in the promotional material?
- ___ 2. Any stated prerequisites were necessary or desirable?
- ___ 3. The course was timely and effective?
- ___ 4. The course met your professional education needs?
- ___ 5. The course materials were understandable and helpful?

Please leave this space blank for your Certificate of Completion.

We encourage you to scan and email your answer sheet to info@accounting-education.com

For CPE credit, this exam must be submitted by December 31, 2012.

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This is a formal self-study CPE course using **the *Journal of Accountancy*** as reference material designed to keep you abreast of the latest changes affecting our profession. Our course consists of a Supplementary Study Packet (available at our Web site: www.accounting-education.com) and this Final Exam; it is divided into sections, each corresponding to selected articles appearing in the JoA. This 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.

LEARNING OBJECTIVES:

The specific learning objectives of this course are stated in each of the 15 sections of the Supplementary Study Packet at our Web site.

PREREQUISITES: None.

LEVEL: Basic.

COURSE NUMBER: The course number we assign to each Quarterly CPE Exam is derived from the Year and Quarter, YYQQ; e. g., the course number for 2010's Fourth Quarter Exam is 1004.

COURSE SPONSOR:

Accounting Education Associates ("AEA") has offered **Quarterly CPE Exams** on the *Journal of Accountancy* every quarter 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 29 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*

Scan/Email, fax or mail your answer sheets to us.

HOW TO CONTACT AEA:

Email: info@accounting-education.com

Telephone: 1-800-CPE-EXAM (1-800-273-3926)

Fax: 1-800-645-1099

Mail: 1809 Worsham Place
Greensboro, NC 27408-3113

For faster response, please provide your email and fax information on your answer sheet. You may scan and email your answer sheet to us at: info@accounting-education.com

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 **Supplementary Study Packet** and **Quarterly CPE Exam on the *Journal of Accountancy*** is 14 hours. These estimates are based on pilot-tests and 50-minute hours, and it is possible that the numbers could vary from quarter to quarter.

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*). Because the completion times could vary (based on pilot tests each quarter), the recommended CPE credit is subject to change from quarter to quarter. Please check with your state board for further guidance.

PROGRAM SPONSOR AGREEMENTS:

AEA has sponsor agreements with the following state boards: **AL, HI** (94007), **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 the seven hours of recommended CPE credit): Accounting 2; Tax 3; Regulatory Ethics 1; Computer Science 1; (NASBA Subject areas).

This division applies to this quarter only and is likely to vary from quarter to quarter.

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: \$10

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 qualifying 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 - 20 RELATE TO THE *Journal of Accountancy* OF OCTOBER 2010

Section 1: Comparing the Ethics Codes: AICPA and IFAC (P. 24)

1. The newly revised IESBA Code is effective _____, with early adoption permitted.
 - a. January 1, 2010
 - b. July 1, 2010
 - c. January 1, 2011
 - d. July 1, 2011
 - e. January 1, 2012

2. Part(s) _____ of the IESBA Code apply (applies) to persons in public accounting.
 - a. A
 - b. B
 - c. C
 - d. A and b but not c
 - e. A and c but not b

3. Part(s) _____ of the IESBA Code apply / applies to professional accountants in business.
 - a. A
 - b. B
 - c. C
 - d. A and B but not C
 - e. A and C but not B

4. The AICPA Code of Ethics is often referred to as a _____ code.
 - a. Principles-based
 - b. Rules-based

5. The _____ use(s) the conceptual framework approach to evaluate ethical conduct through the code(s).
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b

6. The _____ base(s) independence standards on the conceptual framework approach.
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b

7. The _____ split(s) independence requirements into two sections.
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b

8. An instance in which IESBA requirements generally exceed AICPA requirements is in:
 - a. Mergers and acquisitions.
 - b. Contingent fee arrangements with clients.
 - c. Documentation of independence matters.
 - d. Inadvertent violations.
 - e. Expert witness services.

9. True/False? Convergence means that the AICPA's Professional Ethics Executive Committee will seek to adopt higher standards when the IESBA standards are more stringent than those of the AICPA.
 - a. True.
 - b. False.

Section 2: Guard Against Cybertheft (P. 42)

10. True/False? The "fingerprint" technique is used in the authentication process.
 - a. True.
 - b. False.

11. A computer that has been used for _____ may safely be used for online banking, particularly EFTs.
 - a. Web browsing
 - b. E-mailing
 - c. File transfers
 - d. Any of the above
 - e. None of the above

12. Any computer used for online banking should be protected by:
 - a. A firewall.
 - b. Updated antivirus protection.
 - c. Malware protection.
 - d. A, b and c.
 - e. A and b but not c.

13. True/False? A bank that has not explicitly agreed in advance to be liable for damages from EFT fraud will generally get stuck for the loss.
 - a. True.
 - b. False.

14. True/False? The Ubuntu operating system increases risks associated with EFT fraud.
 - a. True.
 - b. False.

Section 3: Income Tax Accounting for Trusts and Estates (P. 62)

15. Which of the following is not included in gross accounting income of trusts?
- a. Interest.
 - b. Dividends.
 - c. Long-term capital gains.
 - d. Rental income.
16. True/False? When trustee fee and depreciation expenses are charged to principal, both are deducted in calculating the trust's net accounting income.
- a. True.
 - b. False.
17. Tax-exempt income is included in:
- a. Accounting income for purposes of allocating the trustee fee and depreciation deductions in determining taxable income.
 - b. Taxable income.
 - c. Both a and b.
 - d. Neither a nor b.
18. In the example in the article as well as the case study provided in the Supplementary Study Packet, the _____ is / are fully deductible.
- a. Trustee fee
 - b. Tax preparer fee
 - c. Both a and b
 - d. Neither a nor b
19. The allocations of income and deduction items between principal and distributable income, between tax-exempt and taxable income, and between trusts/estates and beneficiaries are prescribed by:
- a. The trust instrument.
 - b. The Internal Revenue Code.
 - c. Both a and b.
 - d. Neither a nor b.
20. True/False? It is generally advisable to push the taxable income and income taxed at higher rates to the beneficiary.
- a. True.
 - b. False.

QUESTIONS 21 – 40 RELATE TO THE *Journal of Accountancy* OF NOVEMBER 2010

Section 4: IRS Amends Plan for Uncertain Tax Positions (P. 26)

21. The IRS will require U.S. corporations with total assets of at least \$75 million to begin reporting uncertain tax positions for their _____ tax year.
- a. 2010
 - b. 2011
 - c. 2012
 - d. 2014
 - e. None of the above
22. The IRS will require the use of a ranking method that:
- a. Relies on the reserve computation that corporations perform for audited financial statements.
 - b. Requires disclosure of the actual amounts of the tax reserves.
 - c. Both a and b.
 - d. Neither a nor b.
23. The IRS will require certain U.S. corporations to report:
- a. The rationale for an uncertain tax position.
 - b. The nature of the uncertainty.
 - c. Both a and b.
 - d. Neither a nor b.
24. Corporations with total assets of at least \$ ____ million will be required to report tax positions for which they recorded no reserve.
- a. 100
 - b. 75
 - c. 50
 - d. 10
 - e. None of the above
25. True/False? A corporation may rely on the reserve decisions it made for financial statement purposes to complete Schedule UTP.
- a. True.
 - b. False.

Section 5: A Competitive Analysis of Business Valuation Services (P. 36)

26. True/False? Choosing *not* to get a valuation is an example of a "threat of substitute services or products."
- a. True.
 - b. False.

27. True/False? Buyer price sensitivity is a factor in the second force: bargaining power of customers.
a. True. b. False.

Section 6: How To Be a Better Mentor (P. 42)

28. According to the authors, _____ of the sentences a “true mentor” states to a coachee are questions.
a. One-fourth d. Two-thirds
b. One-third e. Three-quarters
c. One-half
29. True/False? The ideal mentor is someone who knows all the answers and has the ability to communicate them to his or her coachee(s).
a. True. b. False.

Section 7: Navigating Nexus (P. 48)

30. PL 86-272 provides a measure of protection from ____ tax.
a. Income c. Both a and b
b. Franchise d. Neither a nor b
31. True/False? A taxpayer’s responses on a voluntary disclosure agreement nexus questionnaire may subject the taxpayer to other taxes outside the protection associated with the VDA.
a. True. b. False.
32. Which of the following must be approved by the taxpayer’s state legislature?
a. Voluntary disclosure agreements. c. Both a and b.
b. Tax amnesty programs. d. Neither a nor b.
33. Which of the following typically offer(s) the benefit of a limited lookback period or the opportunity to negotiate preferred items?
a. Voluntary disclosure agreements. c. Both a and b.
b. Tax amnesty programs. d. Neither a nor b.
34. Penalties are typically waived as a result of:
a. Voluntary disclosure agreements. c. Both a and b.
b. Tax amnesty programs. d. Neither a nor b.

Section 8: Tax Practice Corner: Deferring COD Income: Burden May Outweigh Benefit (P. 60)

35. Which of the following is (are) made at the shareholder level?
a. The bankruptcy or insolvency exclusion. c. Both a and b.
b. The deferral election. d. Neither a nor b.
36. True/False? The disclosure requirements for partnerships are less demanding than for S corporations.
a. True. b. False.

Section 9: Tax Matters (P. 62)

37. The IRS’ new tax preparer registration program requires all paid preparers, including CPAs, to _____ a new preparer tax identification number.
a. Obtain c. Both a and b
b. Annually renew d. Neither a nor b
38. In which of the following cases did the tax court rule that the taxpayer retained the risks and benefits of ownership following the transactions in question?
a. *Anschutz Co. v. Commissioner.* d. All of the above.
b. *Lizzie W. and Albert L. Calloway v. Commissioner.* e. None of the above.
c. *Cecilia Shao v. Commissioner.*
39. In *Larry E. Howard and Joan M. Howard v. U.S.*, the court ruled that the goodwill created while Howard was bound by an employment agreement belonged to:
a. The corporation. b. Howard.

Section 10: From *The Tax Adviser*: Health Care Reform Mandates Immediate Changes (P. 68)

40. True/False? An employer paying average wages of \$56,000 is eligible for the health care tax credit.
a. True. b. False.

QUESTIONS 40 – 60 RELATE TO THE *Journal of Accountancy* OF DECEMBER 2010

Section 11: Highlights of the Small Business Stimulus Act (P. 26)

41. The Small Business Jobs Act of 2010 increased the Microloan Program maximum loan amount to:
a. \$25,000. b. \$35,000. c. \$45,000. d. \$50,000. e. \$55,000.
42. The SBA's 504 Program may lend up to \$ ___ million to each business concern in connection with loans associated with nonpriority goals and projects.
a. 2.5 b. 5.0 c. 7.5 d. 10.0 e. 12.5
43. For tax years beginning in 2011 only, the act provides that for purposes of computing the IRC section 1374 built-in gains tax, the recognition period is _____ years.
a. Five b. Seven c. Nine d. 10 e. 12
44. True/False? The act allows self-employed individuals who deduct the cost of health insurance to also take the deduction into account in calculating net earnings from self-employment for purposes of SECA taxes, effective with the taxpayer's first tax year beginning after 2009.
a. True. b. False.
45. For tax years beginning in 2010, the act increases the IRC section 195 deduction for trade or business startup expense to:
a. \$2,500 b. \$5,000 c. \$7,500 d. \$10,000 e. \$12,500

Section 12: 2010 Small Business Jobs Act: Good for Big Business (P. 30)

46. The eligibility ceiling for the 2010 Small Business Jobs Act is \$ _____ million in average annual gross receipts for the previous three years.
a. 5 b. 10 c. 25 d. 50 e. 100
47. Under the act, the maximum Section 179 expensing limit is _____ in cost of property placed in service in 2010 or 2011 tax years.
a. \$100,000 d. \$750,000
b. \$250,000 e. \$900,000
c. \$500,000
48. The Section 179 phaseout threshold for 2010 and 2011 is:
a. \$400,000. d. \$1,200,000.
b. \$600,000. e. \$2,000,000.
c. \$800,000.
49. For tax years beginning in 2010, provisions of the act effectively eliminate:
a. The tentative minimum tax limitation of section 38 (c)(1)(A).
b. The modified section 38 (c)(1)(B).
c. Both a and b.
d. Neither a nor b.
50. When a loss company with a full valuation allowance claims the act's beneficial depreciation, the income tax accounting will result in:
a. An increase to the deferred tax asset associated with the loss.
b. A decrease in the deferred tax asset relating to fixed assets.
c. Both a and b.
d. Neither a nor b.
51. When a profitable company with a full or partial valuation allowance claims the act's beneficial depreciation, the result will be:
a. An income statement tax benefit. c. Both a and b.
b. A decrease in the deferred tax. d. Neither a nor b.

Section 13: Proposed Changes to GAO's Yellow Book Promote Harmonization of Auditing Standards (P. 36)

52. True/False? One proposed change is to include the AICPA definitions for material weaknesses and significant deficiencies as an integral component of the Yellow Book.
a. True. b. False.

53. True/False? The proposed conceptual framework requires the auditor to identify any threats to independence and then to assess their significance.
a. True. b. False.
54. True/False? The auditor is not required to document any independence issue that requires significant discussion or analysis.
a. True. b. False.
55. True/False? Under the proposal, preparing source documents in a client's accounting system would create an automatic impairment to independence.
a. True. b. False.
56. Under the proposal, external specialists used on an audit are not required to be independent.
a. True. b. False.

Section 14: Deductibility of Work-Related Educational Expenses (P. 42)

57. To be deductible, expenditures must be made for education that:
a. Maintains or improves the taxpayer's skills.
b. Meets legal or employer requirements for the taxpayer to maintain his or her employment, status or pay level.
c. Qualify the taxpayer for a new trade or business.
d. A, b or c.
e. A or b but not c.
58. True/False? A taxpayer who is employed as a routine bookkeeper may generally deduct the cost of an MBA.
a. True. b. False.

Section 15: Innocent Spouse Relief: Alternatives After the Lantz Case (P. 46)

59. Which form of relief applies to any underpayment of tax?
a. Innocent spouse relief. d. A, b and c.
b. Separation-of-liability relief. e. A and b but not c.
c. Equitable relief.
60. Which of the following avenues may taxpayers who missed the two-year time limit for claiming innocent spouse relief follow?
a. Extension of time to file a claim for relief. c. Either a or b.
b. Release of levy. d. Neither a nor b.

If you provide your email address or fax number on your answer sheet, we will email or fax your graded exam to you (instead of mailing it.) Thank you.

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

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

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Thank you for using our Quarterly CPE Exams!