

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

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QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Third Quarter (July-September), 2011 (Course # 1103)

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

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.

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We encourage you to scan and email your answer sheet to info@accounting-education.com
For CPE credit, this printed exam must be completed by 9/30/2013.

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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 are stated in the individual 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 2011's Third Quarter Exam is 1103.

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/Auditing 2; Tax 3; Regulatory Ethics 1; Management 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: \$30

Price per course for orders of 50 or more: \$27

Checks, Visa, and MasterCard are accepted as payment.

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QUESTIONS 1 - 20 RELATE TO THE *Journal of Accountancy* OF JULY 2011

Section I. A SEA CHANGE FOR GIFT AND ESTATE PLANNING (P. 24)

1. True/False? The \$5 million exemption is currently scheduled to expire on January 1, 2014.
 - a. True.
 - b. False.
2. Any increase in interest rates would reduce the tax savings opportunities of using:
 - a. Note sale transactions.
 - b. Grantor retained annuity trusts (GRATs).
 - c. Both a and b.
 - d. Neither a nor b.
3. Domestic self-settled asset protection trusts allow a client to:
 - a. Remain a discretionary beneficiary of an independent trustee.
 - b. Benefit from his or her assets if needed.
 - c. Both a and b.
 - d. Neither a nor b.
4. In which of the following tax years should a tax adviser want to expressly opt not to have a GST exemption allocated on gift tax returns for GST trusts?
 - a. 2010.
 - b. 2011.
 - c. Both a and b.
 - d. Neither a nor b.

Section II. ESTATE TAX OR CARRYOVER BASIS? (P. 28)

5. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA):
 - a. Reduced tax rates.
 - b. Increased exemption amounts.
 - c. Eventually repealed the estate and GST taxes.
 - d. A, b and c.
 - e. A and b but not c.
6. True/False? Under the modified basis rules, the basis of any particular item may not exceed its fair market value on the date of the decedent's death.
 - a. True.
 - b. False.
7. Under the modified basis rules, property subject to adjustment includes:
 - a. Property in the decedent's probate estate.
 - b. Property in a revocable trust.
 - c. Both a and b.
 - d. Neither a nor b.
8. In general, if a person died in 2010 with a taxable estate _____ \$5 million, the estate will want to apply the law in effect before the Tax Relief Act's enactment.
 - a. Exceeding
 - b. Less than
 - c. Either a or b
 - d. Neither a nor b

Section III. PCAOB SET TO EXPAND UNDER NEW MANDATES (P. 36)

9. True/False? The PCAOB's mission is to protect reporting entities from investor litigation.
 - a. True.
 - b. False.
10. The PCAOB has the authority to oversee audits of:
 - a. Public companies.
 - b. Broker-dealers.
 - c. Introducing brokers.
 - d. A, b and c.
 - e. None of the above.
11. The PCAOB's authority extends to firms in:
 - a. The USA.
 - b. Countries outside the USA.
 - c. Both a and b.
 - d. Neither a nor b.

12. True/False? Part of the PCAOB's authority came from the Dodd-Frank Wall Street Reform and Consumer Protection Act.
- a. True. b. False.

Section IV. EXPANDING SERVICE ORGANIZATION CONTROLS REPORTING (P. 46)

13. SOC 2 engagements are performed in accordance with:
- a. SSAE no. 16.
b. AT section 101.
c. Both a and b.
d. Neither a nor b.
14. SOC 2 reports provide users with:
- a. A detailed description of a service organization's system, including controls designed to achieve the criteria for one or more of the Trust Services principles.
b. An assertion by management regarding the fairness of the description, the suitability of the design of the controls and for some engagements, the operating effectiveness of the controls.
c. A CPA's opinion on the fairness of the description, the suitability of the design of the controls and, for some engagements, the operating effectiveness of the controls and description of the tests performed by the CPA and the results of those tests.
d. A, b and c.
e. A and b but not c.
15. Which of the following reports include(s) the opinion on whether the controls were operating effectively?
- a. Type 1 SOC 2 report.
b. Type 2 SOC 2 report.
c. Both a and b.
d. Neither a nor b.
16. Which of the following SOC reports require(s) details on the systems, controls, tests performed by the service auditor and results of these tests?
- a. SOC 1. d. A, b and c.
b. SOC 2. e. A and b but not c.
c. SOC 3.
17. Which of the following engagements requires the highest level of knowledge and experience?
- a. SOC 1 engagements. b. SOC 2 engagements. c. SOC 3 engagements.
18. Which of the following reports would be appropriate for Sarbanes-Oxley compliance?
- a. SOC 1 engagements. b. SOC 2 engagements. c. SOC 3 engagements.

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QUESTIONS 19 – 36 RELATE TO THE *Journal of Accountancy* OF AUGUST 2011

Section V. NEWS DIGEST (P. 13)

19. The PCAOB's concept release suggests an auditor's discussion and analysis section (AD&A) that would:
- a. Aid in building an understanding of the auditor's opinion on the financial statements taken as a whole.
b. Provide separate assurance on individual balances, disclosures, transactions, etc.
c. Both a and b.
d. Neither a nor b.
20. Under the PCAOB's concept release, an expanded emphasis paragraph would be:
- a. Optional. b. Required.
21. One proposal of the PCAOB's concept release would require auditors to provide assurance on:
- a. Management's discussion and analysis.
b. Information such as earnings releases or non-GAAP information.
c. Both a and b.
d. Neither a nor b.

22. The SEC's proposed rule amendments would require a broker-dealer that maintains custody of customer securities and cash to undergo an examination (by a PCAOB-registered public accounting firm) of whether:
- It is in compliance with the four enumerated rules of the Securities Exchange Act of 1934.
 - Its controls for complying with these rules are effective.
 - Both a and b.
 - Neither a nor b.

Section VI. CLIENT TAX FRAUD AND THE CPA (P. 24)

23. The largest source of IRS criminal investigations is:
- Other IRS criminal investigations.
 - IRS civil investigations.
 - Investigations by state revenue departments.
 - Investigations by other federal agencies.
 - Whistleblowers.
24. Which of the following is *not* one of the three elements of tax evasion?
- A deficiency of tax.
 - Willfulness.
 - An affirmative act or attempted act of evasion.
 - Unintentional underreporting of taxable income due to bookkeeping negligence.
25. In order to successfully prosecute a criminal tax case, the government must prove its case:
- Beyond a reasonable doubt.
 - By clear and convincing evidence.
26. True/False? An IRS field agent conducting a civil examination must inform a taxpayer when a case has been referred for criminal investigation.
- True.
 - False.
27. The tax practitioner's privilege of client confidentiality applies to _____ matters.
- Civil
 - Criminal
 - Both a and b
 - Neither a nor b

Section VII. WHAT'S YOUR FRAUD IQ? (P. 32)

28. In a positive pay system:
- An organization provides the bank with an electronic list of checks written and electronic payments issued each day.
 - A bank verifies all transactions presented for payment against a list provided by the organization.
 - A bank alerts the organization of any transaction not on a list provided by the organization.
 - A, b and c.
 - A and b but not c.
29. True/False? Tips are responsible for the detection of more frauds than any other means.
- True.
 - False.
30. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), control environment involves:
- Setting the moral tone at the top.
 - The integrity, ethical values and competence of the entity's people.
 - Management philosophy.
 - Operating style.
 - All of the above

Section VIII. ASSET-BASED FINANCING BASICS (P. 40)

31. Which of the following kinds of inventory generally qualify for asset-based financing?
- Finished goods.
 - Marketable raw materials.
 - Goods-in-process.
 - All of the above.
 - A or b but not c.

32. In _____ factoring, the factor bears the risk of loss if the debtor does not pay the invoice.
- a. Recourse
 - b. Nonrecourse
 - c. Both a and b
 - d. Neither a nor b
33. A lockbox arrangement can exist in _____ arrangements.
- a. Asset-based loan
 - b. Factoring
 - c. Either a or b
 - d. Neither a nor b

Section IX. (Three columns grouped as one Section:)

TAX PRACTICE CORNER: MANAGING AN IRS CORRESPONDENCE AUDIT (P. 52)

TAX MATTERS (P. 54)

FROM *The Tax Adviser*: CARRYING BACK NET OPERATING LOSSES (P. 60)

34. True/False? The “90-day letter” is a statutory notice of deficiency that is sent if there is no reply to the IRS' first notice.
- a. True.
 - b. False.
35. In *Willis v. Menotte*, the IRAs would have been exempt from the bankruptcy estate if the loans had been repaid within 60 days.
- a. True.
 - b. False.
36. A taxpayer with a net operating loss:
- a. May carry it back two years.
 - b. May elect affirmatively to waive the entire carryback period.
 - c. May elect affirmatively to waive only part of the carryback period.
 - d. A, b and c.
 - e. A and b but not c.

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QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF SEPTEMBER 2011

Section X. NEW IASB LEADER EMBRACES CHALLENGES (P. 30)

37. Which of the following countries have adopted IFRS?
- a. All members of the European Union.
 - b. The U.S.
 - c. Japan.
 - d. All of the above.
 - e. None of the above.
38. Hoogervorst believes that the focus of standard setting should be on:
- a. Reducing complexity.
 - b. Improving consistency.
 - c. Both a and b.
 - d. Neither a nor b.
39. Which of the following organizations is vehemently opposed to the development of XBRL technology?
- a. The SEC.
 - b. The IFRS.
 - c. Both a and b.
 - d. Neither a nor b.

Section XI. HIGHLIGHTS OF CORPORATE GOVERNANCE RESEARCH (P. 34)

40. The Sarbanes-Oxley Act of 2002 requires _____ to assess the effectiveness of internal controls.
- a. Companies
 - b. Auditors
 - c. Both a and b
 - d. Neither a nor b
41. In their analysis of 216 securities class-action lawsuits alleging corporate fraud filed between 1996 and 2004, which of the following groups were most often identified as whistleblowers?
- a. Auditors.
 - b. Securities regulators.
 - c. Debt holders and their delegates.
 - d. Equity holders and their delegates.
 - e. Employees.

42. True/False? In the study, fewer than 10% of the whistleblowing auditors lost the company as a client after it was involved in the irregularities.
a. True. b. False
43. Fewer than 20% of the employee whistleblowers named in the study claimed that they were fired, forced to quit or demoted after blowing the whistle.
a. True. b. False.

Section XII. PIVOTAL ADVANCE BOOSTS EXCEL'S POWER (P. 40)

44. PowerPivot can collect data directly from:
a. Excel files. d. A, b and c.
b. Access databases. e. A and b but not c.
c. Non-Microsoft program files.
45. PowerPivot supports _____ relationships.
a. One-to-many d. A, b and c
b. One-to-one e. A and b but not c.
c. Many-to-many

Section XIII. ADVISING FINANCIALLY STRESSED CLIENTS (P. 50)

46. Which of the following change(s) the terms of a loan agreement?
a. Loan modifications. c. Both a and b.
b. Loan extensions. d. Neither a nor b.
47. As a general rule, _____ forgiveness of debt is taxable cancellation of debt (COD) income.
a. Full c. Either a nor b
b. Partial d. Neither a nor b
48. True/False? Significant modification of the terms of a loan can trigger an exchange that results in COD income even if principal is not reduced.
a. True. b. False.
49. True/False? A “deed in lieu of foreclosure” should never be considered if the property is worth much less than the mortgage balance.
a. True. b. False.
50. True/False? Banks are allowed to offset bank deposit accounts against debts owed to the bank *without* court approval.
a. True. b. False.

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

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

As an alternative to ordering our courses, you may also read and download our Quarterly CPE Exams at our Web site: www.accounting-education.com

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