QUARTERLY CPE EXAM ON THE Journal of Accountancy
First Quarter (January - March), 2012 (Course # 1201)
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 3; Management 1.

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:
2. 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.
3. If applicable, please submit a Payment Voucher with your completed Exam.
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 completed by 3/30/14.
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Date completed: __________________________
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. New courses normally appear at our Web site around the beginning of each quarter.

**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 2012’s First Quarter Exam is 1201.

**COURSE SPONSOR:** Accounting Education Associates (“AEA”) has offered Quarterly CPE Exams on the *Journal of Accountancy* every quarter since 1982. James H. Ogbum 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 30 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  
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**Fax:** 1-800-645-1099  
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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 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:** A few state boards may 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*); check with your own state board's rules for guidance. 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.

**SUBJECT DIVISIONS OF CPE CREDIT:**
The following subject division (for the seven hours of recommended CPE credit): Accounting/Auditing 3; Tax 3; Management 1. (NASBA Subject areas). This division applies to this quarter only and is likely to vary from quarter to quarter.

**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.

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Sections I – V and Exam Questions 1 – 18 Relate to the *Journal of Accountancy* of January 2012.

**Section I. Tax Relief and Health Care Acts Shape 2011 Returns (Page 24)**

1. As of the publication date of this article, tax rates on ______ were set to rise in 2012 from 2011.
   a. Ordinary income
   b. Capital gains
   c. Both a and b
   d. Neither a nor b

2. Tax preparers or their firms that reasonably expect to file at least _____ individual and fiduciary income tax returns during 2012 must efile.
   a. 6 b. 11 c. 16 d. 26 e. 51

3. Which of the following provisions of the Tax Relief Act were extended through 2012?
   a. Marriage penalty relief.
   b. The $1,000 child tax credit amount and the expanded refundability of the credit.
   c. The treatment of mortgage insurance premiums as interest.
   d. A, b and c.
   e. A and b but not c.

4. Which of the following qualified benefits may Small business SIMPLE cafeteria plans now offer?
   a. Group term life insurance.
   b. Benefits under a self-insured medical expense reimbursement plan.
   c. Benefits under a dependent care assistance program.
   d. A, b and c.
   e. A and b but not c.

5. For the ______ tax year(s), self-employed individuals may deduct health insurance premiums from self-employment income for purposes of determining self-employment tax.
   a. 2010
   b. 2011
   c. Both a and b
   d. Neither a nor b

6. Beginning in calendar year 2011, payment settlement entities are required to report the gross amount of the payee merchant's reportable payment transactions within a calendar year to:
   a. The payee merchant.
   b. The IRS.
   c. Both a and b.
   d. Neither a nor b.

**Section II. A New System for Recognizing Revenue (Page 30)**

7. The FASB's revised proposal for recognizing revenue applies to:
   a. U. S. GAAP.
   c. Both a and b.
   d. Neither a nor b.

8. If implemented, the proposal would not be effective earlier than for annual reporting periods beginning on or after:
   d. July 1, 2014.
   e. January 1, 2015.

9. The proposed model would be applied to:
   a. Contracts to provide tangible goods.
   b. Insurance.
   c. Leases.
   d. A, b and c.
   e. A and b but not c.
10. The proposal's “Step 1: Identify the contract(s) with the customer” ________ analysis of contract segmentation.
   a. Requires 
   b. Does not require

Section III. One Size Does Not Fit All (Page 46)

11. In the FAF's proposal, the Private Company Standards Improvement Council (PCSIC) ______ have final authority (with no oversight of the FASB) for setting reporting standards for private companies.
   a. Would 
   b. Would not

12. More than _____ of the companies in the world are eligible to use International Financial Reporting Standards for Small and Medium-sized Entities. Pick the most definitive and descriptive option.
   a. 50% 
   b. 60% 
   c. 75% 
   d. 85% 
   e. 95%

Section IV. IRS Audits of Small Business Software Files (Page 50)

13. In Rouse, the U. S. District Court ruled that the IRS ______ have the right to inspect the taxpayer's electronic records.
   a. Did 
   b. Did not

14. The IRS ______ explicitly stated that it will endorse redaction in cases involving privileged information.
   a. Has 
   b. Has not

15. Taxpayers may provide electronic files to the IRS by:
   a. DVD or CD. 
   b. Flash drive. 
   c. Email. 
   d. Any of the above. 
   e. A or b but not c.

Section V. The Basics of S Corporation Stock Basis (Page 55)

16. Which of the following may affect basis adjustment?
   a. Income. 
   b. Distributions. 
   c. Deductions. 
   d. Losses. 
   e. All of the above.

17. When an S corporation has losses, a shareholder or partner ______ always allowed to deduct his or her share in full.
   a. Is 
   b. Is not

18. An S corporation shareholder receives basis by:
   a. Making a direct loan to the company. 
   b. Making a personal guarantee of company debt. 
   c. Entering into a co-borrowing situation. 
   d. A, b and c. 
   e. A and b but not c.

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Section VI. Three Common Currency-Adjustment Pitfalls (Page 30)

19. Foreign-currency gains and losses on intercompany accounts should generally be:
   a. Reported in other comprehensive income. 
   b. Recognized in net income. 
   c. Both a and b. 
   d. Neither a nor b.

20. Foreign-currency gains and losses that are “essentially permanent” are:
   a. Reported in other comprehensive income. 
   b. Recognized in net income. 
   c. Both a and b. 
   d. Neither a nor b.
21. The consolidated statement of cash flows ________ prepared using the exchange rate in effect on the statement date.
   a. Are
   b. Are not

22. The consolidated statement of cash flows should:
   a. Be translated into the reporting currency.
   b. Reflect cash flows using the average exchange rate in effect during the period.
   c. Both a and b.
   d. Neither a nor b.

23. U.S. GAAP requires that the financial statements of foreign entities operating in highly inflationary environments:
   a. Recognize currency translation in other comprehensive income.
   b. Translate all assets and liabilities at current translation rates.
   c. Both a and b.
   d. Neither a nor b.

24. U.S. GAAP _________ that different procedures be used to translate nonmonetary assets and liabilities for companies operating in highly inflationary environments.
   a. Requires
   b. Does not require

25. Which of the following require(s) that entities operating in highly inflationary environments adopt the reporting currency as the functional currency?
   a. U.S. GAAP.
   b. IFRS.
   c. Both a and b.
   d. Neither a nor b.

Section VII. What's Your Fraud IQ? (Page 36)

26. Which of the following has (have) jurisdiction over criminal violations of the FCPA?
   a. Department of Justice.
   b. SEC.
   c. Both a and b.
   d. Neither a nor b.

27. Provisions of the FCPA _________ organizations to have external audits of books and records.
   a. Require
   b. Do not require

28. An auditor _________ disclose to the SEC any illegal acts discovered in the course of an independent audit of a publicly traded U.S. Corporation.
   a. Must
   b. Is not required to

29. Which of the following prohibit(s) both the offer and the acceptance of a bribe?
   b. FCPA.
   c. Both a and b.
   d. Neither a nor b.

Section VIII. When A Client Leaves Or Loses A Job (Page 40)

30. Which of the following options would allow an individual, age 45, to begin taking distributions from a qualified retirement plan without becoming subject to the 10% early withdrawal penalty?
   a. Using the separation-from-service option.
   b. Using the substantially-equal periodic payments method.
   c. Both a and b.
   d. Neither a nor b.

31. The separation-from-service distribution option is available from the qualified retirement plan associated:
   a. With the most recent employer.
   b. With any employer other than the most recent.
   c. Both a and b.
   d. Neither a nor b.

32. Health savings accounts can be used to pay for:
   a. Qualified medical expense.
   b. COBRA premiums.
   c. Health care coverage while receiving unemployment insurance.
   d. A, b and c.
   e. A and b but not c.
33. Flexible spending accounts allow:
   a. Distributions for health insurance premiums.
   b. Participants to carry balances forward from one year to the next.
   c. Participants to transfer amounts from an FSA to an HSA (as of January 1, 2012).
   d. A and b but not c.
   e. None of the above.

Section IX. Restricted Stock Awards And Taxes: What Employees And Employers Should Know (Page 44)

34. Section 83(b) allows the employee to:
   a. Reduce the risk associated with stock ownership.
   b. Accelerate the recognition of income.
   c. Postpone the recognition of income.
   d. A, b and c.
   e. A and b but not c.

35. The Section 83(b) election can prove beneficial where the stock later:
   a. Declines in value.
   b. Is forfeited.
   c. Increases in value.
   d. A, b or c.
   e. A or b but not c.

36. The Section 83(b) election affects the _______ of the deduction allowed the corporation on its income tax return.
   a. Amount
   b. Timing
   c. Both a and b
   d. Neither a nor b


Section X. Internal Control Revisited: Prominent COSO Officials Discuss Proposed Updates to Framework (Page 24)

37. The COSO framework exposure draft produced changes in:
   a. The five main components in the COSO's internal control framework.
   b. Explicit statement of the 17 principles.
   c. Both a and b.
   d. Neither a nor b.

38. The COSO framework exposure draft's reporting objectives encompass:
   a. Financial reporting.
   b. Nonfinancial reporting.
   c. Both a and b.
   d. Neither a nor b.

39. The COSO framework exposure draft's additional guide on financial reporting applies to:
   a. Public companies.
   b. Private companies.
   c. Both a and b.
   d. Neither a nor b.

Section XI. A Strategic Approach to IT Budgeting (Page 38)

40. The first step in formulating an organization's IT budget is to:
   a. Determine how much money is available for spending.
   b. Gain an understanding of the organization's short- and long-range plans.
   c. Determine the cost of each spending option.
   d. Decide who will staff the growth of IT.

41. Replacing mission-critical services is an example of a _______ budget item.
   a. Run
   b. Grow
   c. Transform
Section XII. Daily Money Management: What CPAs Should Know about a Growing Field in Personal Financial Services (Page 46)

42. For CPAs and CPA firms not required to register with the SEC, daily money management activities typically include:
   a. Bill paying.  
b. Checkbook balancing.  
c. Keeping track of assets.  
d. A, b and c.  
e. A and b but not c.

43. The fastest growing age demographic from 1960 to 2010 was ages:
   a. Under 18.  
b. 18 – 44.  
c. 45 – 64.  
d. 65 and older.

Section XIII. Tax Planning for Parents of College Students (Page 50)

44. Taxpayers may deduct interest on qualified educational loans used for:
   a. Qualified tuition.  
b. Fees and supplies.  
c. Room and board and other necessary items.  
d. A, b and c.  
e. A and b but not c.

45. Expenses eligible for the American opportunity tax credit include:
   a. Qualified tuition.  
b. Fees and other required course expenses including books and other course materials.  
c. Room and board.  
d. A, b and c.  
e. A and b but not c.

46. A taxpayer has three children each of whom incurs $15,000 of qualified educational expenses in 2012. The taxpayer may be eligible for a lifetime learning credit of up to_________ for the 2012 tax year.
   a. $0  
b. $2,000  
c. $3,000  
d. $6,000  
e. $7,500

47. Expenses eligible for the lifetime learning credit include:
   a. Qualified tuition and related expenses.  
b. Books and other course materials.  
c. Room and board.  
d. A, b and c.  
e. A and b but not c.

48. Interest on U.S. Government savings bonds (both Series E and I) bonds used for higher educational expenses is subject to _______ taxation
   a. Federal  
b. State  
c. Both a and b  
d. Neither a nor b

Section XIV. Tax Practice Corner (Page 58)

49. Gain from foreclosure sale of abandoned property is includible in gross income if the property was:
   a. Used for business purposes.  
b. Personal-use property.  
c. Either a or b.  
d. Neither a nor b.

50. The amount of recourse debt forgiven or canceled by a creditor is generally:
   a. Nontaxable to the debtor.  
b. Taxable as ordinary income to the debtor.  
c. Taxable as capital gain to the debtor.

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