

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

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QUARTERLY CPE EXAM ON THE *Journal of Accountancy- Web edition*
Third Quarter (July - September), 2007; Course #0703
Recommended CPE Credit - 7 hours (Exceptions noted on next page)

Name _____
Firm _____
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City/State/Zip _____
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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 75 or better is required.
2. Mail or fax **only** the answer sheet for grading.
3. Please include payment by check, Visa, or MasterCard. You may provide your credit card # and expiration date below.*
4. **Please provide your fax number above. We plan to fax your graded exam back to you instead of mailing, unless you object, resulting in faster response to you. Thanks!**

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?

Finally, what was your estimated completion time? _____ 50-minute hours.

Please leave this space for our Certificate of Completion

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Date Completed: _____

For CPE credit, this exam must be completed by September 30, 2009.

* If paying by credit card, you may report your credit card # here or in a cover letter. Be sure to give us the 16-digit #, the expiration date, and the card's billing address, below:

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 has offered **Quarterly CPE Exams on the *Journal of Accountancy*** since 1982. The courses are prepared by James H. Ogburn. 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 25 years of experience in developing CPE courses for CPAs.

HOW TO CONTACT AEA:

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

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Postal: P.O. Box 9055
Greensboro, NC 27429-0055

Email: info@accounting-education.com

Please provide your fax number on your answer sheet page. We plan to fax your graded exam back to you (instead of mailing) unless you object, resulting in faster response to you.

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.

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, DC, DE, HI (#4007), IL (#158-000242), IN (#CE92-000158), KY, NJ (#102), OH (#CPE.20), PA (#PX00005-L), and TX (#000211)**. AEA's courses are accepted by the IBCFP and many but not all state boards of accountancy. We do not have a sponsor agreement with 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; Other: 1 hour.

COURSE NUMBER: #0703 (For those states requiring a "course number," we assign a number derived from the year and quarter.)

PRICES:

The price of a **Quarterly CPE Exam** is \$35, with lower prices when an order involves four or more courses:

Price per course for orders of 1 to 3 courses: \$35

Price per course for orders of 4 to 7 courses: \$32

Price per course for orders of 8 to 23 courses: \$30

Price per course for orders of 24 to 49 courses: \$28

Price per course for orders of 50 or more: \$25

Checks, Visa, and MasterCard are accepted as payment.

SUBSCRIBE TO OUR QUARTERLY CPE EXAMS:

To ensure uninterrupted service and to remind yourself to conveniently earn your CPE credit throughout the year, subscribe today! Annual subscriptions are \$128 (or \$120 when you order at least two subscriptions). Just tell us your "start quarter." We'll send you "tracking numbers" for you to write on exams that you print at our website.

4. Practice Alert 2003-2:
- Provides guidance regarding the design and performance of journal entry audit procedures to fulfill the responsibilities outlined in SAS no. 99.
 - Provides actual tests to be completed and a specific note for the use of computer-assisted audit tools.
 - Both a and b.
 - Neither a nor b.

TAX PATENTS CONSIDERED (P. 40)

5. Patents may be obtained for any new and useful:
- Process. d. A, b, or c.
 - Machine. e. A or b but not c.
 - Tax strategy.
6. Patents have been issued for:
- A method for financing future needs.
 - Establishing and managing grantor retained annuity trusts funded by nonqualified stock options.
 - A process for evaluating the financial consequences of converting a standard IRA to a Roth IRA.
 - All of the above.
 - None of the above.

DELIVERING DIFFICULT MESSAGES (P. 50)

7. The author recommends the use of the pronoun _____ in the delivery of difficult messages.
- You b. I c. They

THE DREADED KIDDIE TAX (P. 55) *Note: For tax years beginning in 2008 and beyond (for calendar-year individuals), the "Small Business and Work Opportunity Tax Act of 2007" changes the rules again. As always, please consult the latest rules and standards.*

8. Which of the following would disqualify a parent of a child subject to the kiddie tax from filing Form 8814?
- If the child has any earned income.
 - If the child had taxes withheld or made estimated tax payments.
 - If the child's gross income were \$8,500 or more.
 - A, b, or c.
 - None of the above.
9. In which of the following case(s) is the kiddie tax that is applied to each child determined by the parent with the higher income?
- If the parents are married and filing separately.
 - If the parents are not married and living together the entire year.
 - If the parents are married and not living together the entire year.
 - A, b, and c.
 - A and b but not c.
10. Which of the following has a greater tax preference for a child subject to the kiddie tax?
- Qualified dividend income.
 - Interest income.
 - Nonqualified dividend income.
 - None of the above would qualify for a tax preference.
11. The kiddie tax applies to _____ income.
- Earned c. Both a and b
 - Unearned d. Neither a nor b
12. For tax years beginning after 2005, the kiddie tax applies to children under age _____.
- 12 b. 14 c. 16 d. 18 e. 21

NPO SOFTWARE MEASURES UP (P. 68)

13. Which of the following accounting software packages lack(s) strong budgetary controls?
- Cougar Mountain. d. A, b, and c.
 - Traverse NFP. e. A and b but not c.
 - Kintera Fundware.

14. Which of the following accounting software packages produce(s) a true statement of cash flows?
- Frey & Co. BUCS Budgetary.
 - Blackbaud.
 - Kintera Fundware.
 - A, b, and c.
 - A and b but not c.
15. Which of the following accounting software packages post(s) general journal entries to both the general ledger as well as to subsidiary ledgers?
- Serenic Navigate.
 - QuickBooks Premier.
 - Kintera Fundware.
 - A, b, and c.
 - A and b but not c.

TAX PRACTICE CORNER (P. 82)

16. Which of the following two decisions should CPAs make for their clients?
- Deciding which entity form best suits a business.
 - Deciding on whether or not to make the section 754 election.
 - Both a and b.
 - Neither a nor b.

TAX MATTERS (P. 84)

17. In *Isaac B. Tigrett II v. U.S.*, the Sixth Circuit Court ruled that Tigrett's payment was:
- A contribution to the capital of the corporation.
 - A capitalized payment to protect an individual's business reputation.
 - An ordinary expense of a trade or business.
 - A, b, or c.
 - A or b but not c.

OFFICIAL RELEASES – ETHICS INTERPRETATION (P. 102)

18. Which of the following services may an AICPA member perform for an attest client?
- Provide advice, research materials, and recommendations to assist the client's management in performing its functions and making decisions.
 - Make management decisions.
 - Perform management functions.
 - A, b, and c.
 - None of the above.

QUESTIONS 19 – 36 RELATE TO THE *Journal of Accountancy* OF AUGUST 2007

NEWS DIGEST (P. 21)

19. According to a Lord & Benoit study of companies complying for the first time with Sarbanes-Oxley section 404, the most common problem associated with lack of effective internal controls was related to:
- The financial closing process.
 - Information technology.
 - Accounting and disclosure controls.
 - Treasury.
 - The control environment.

MANAGED ACCOUNTS (P. 32)

20. The Pension Protection Act of 2006 empowered employers in which of the following areas?
- Auto enrollment.
 - Default investments.
 - More latitude for providing investment advice.
 - A, b, and c.
 - A and b but not c.
21. Fees associated with managed accounts are generally paid by:
- Employers.
 - Employees.

THE RED CARPET TREATMENT (P. 36)

22. According to a survey conducted by Robert Half and CareerBuilder.com, the biggest obstacle to hiring qualified workers is:
- Insufficient recruitment budget.
 - Inability to offer competitive compensation.
 - Ineffective recruitment tools.
 - Shortage of qualified workers.
 - Inability to offer career advancement opportunities.
23. According to the CCH Young Accounting Professionals Survey, which of the following attributes is most important to young CPAs?
- The ability to perform tax preparation remotely.
 - Comprehensive resources to get the job done.
 - Investment in leading tax/accounting software.
 - Access to the latest technology to aid productivity.
 - The ability to perform tax research online.

ABCs OF BATCH PROCESSING (P. 40)

24. If costs are not isolated when batch processing is used, _____ customers and products tend to subsidize _____ ones.
- High-volume...lower volume
 - Low-volume...higher volume
25. Operational volume setup:
- Takes place every time a lot passes from one work station to the next.
 - Leads to cost measurement distortions.
 - Both a and b.
 - Neither a nor b.
26. Operational control setup:
- Takes place based on quality-control requirements.
 - Leads to cost measurement distortions.
 - Both a and b.
 - Neither a nor b.
27. True/False? In activity-based costing, conditional setup activities are generally related to the volume of the units in the batch.
- True.
 - False.
28. True/False? Activity-based costing systems generally assign product-level activity costs equally to each product.
- True.
 - False.
29. Which of the following statements is (are) generally true of conditional setup activities?
- Conditional setup activities are not related to the volume of the units in the batch.
 - Conditional setups are often treated as batch-level costs.
 - Both a and b.
 - Neither a nor b.
30. Under the authors' "preferred" approach to activity-based costing, which of the following is allocated to units based on the number of units rather than the number of products?
- Conditional setup costs.
 - Unit costs.

GETTING A HANDLE ON LOAN FEES (P. 48)

31. Assume that a lender generates a nonrefundable loan fee of \$4,000 while incurring origination fees of \$3,000 associated with the loan. The lender may:
- Reflect the entire \$4,000 fee in earnings as soon as the lender receives it.
 - Reflect \$1,000 in earnings as soon as the lender receives the fee.
 - Amortize \$4,000 income over the life of the loan.
 - Amortize \$1,000 net fee over the life of the loan.
 - None of the above.
32. True/False? FASB Statement no. 91 requires the use of the effective-interest method of amortizing loan fees.
- True.
 - False.

WADING INTO LITIGATION SUPPORT (P. 54)

33. True/False? A litigation support engagement letter that protects the attorney work product privilege will prevent the CPA from being called as a witness by the opposing party during trial.
- a. True.
 - b. False.

TAX PRACTICE CORNER (P. 70)

34. Changes to IRC section 6694(a) on preparer penalties require a reliance level of:
- a. Reasonable basis.
 - b. More-likely-than-not.
 - c. Not frivolous.
 - d. Both a and b.

TAX MATTERS (P. 72)

35. As demonstrated by the ruling in *Daniel Wayne Webb v. Commissioner*, which of the following is (are) required to deduct alimony payments?
- a. The alimony payments must be made under a divorce or separation instrument.
 - b. The payer must be legally obligated to make the payments.
 - c. Both a and b.
 - d. Neither a nor b.
36. In *H. J. Heinz Co. v. U.S.*, the court agreed with the IRS's argument that:
- a. H. J. Heinz Credit Co. never really owned the Heinz stock.
 - b. The loss was the result of a sham transaction lacking a business purpose.
 - c. Both a and b.
 - d. Neither a nor b.

QUESTIONS 37 – 50 RELATE TO THE *Journal of Accountancy* OF SEPTEMBER 2007

PROFESSIONAL GUIDANCE IN BUSINESS VALUATION: APPLYING SSVS1 (P. 33)

37. Statement on Standards of Valuation Services no. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* is effective for valuation engagements:
- a. Accepted after June 30, 2007.
 - b. Accepted after January 1, 2008.
 - c. Completed after June 30, 2007.
 - d. Completed after 2007.
 - e. None of the above.
38. SSVS1 applies to which of the following situations?
- a. Any engagement to estimate the value of a business, business ownership interest, security or intangible asset.
 - b. Any engagement in which the AICPA member calculates value as part of an audit or review engagement.
 - c. Internal use assignments from employers to employee members who are not in the practice of public accounting.
 - d. A, b, and c.
 - e. A and b but not c.
39. In _____ engagements, the valuation analyst is free to apply the approaches and methods he or she considers appropriate with prior agreement with the client.
- a. Valuation
 - b. Calculation
 - c. Either a or b.
 - d. Neither a nor b.
40. For valuation of a business, business ownership interest or security, the member should consider:
- a. The income approach.
 - b. The market approach.
 - c. The cost approach.
 - d. All of the above.
 - e. A and b but not c.
41. Oral reports may be used in _____ engagements.
- a. Valuation
 - b. Calculation
 - c. Either a or b
 - d. Neither a nor b

50 EXAMPLES OF WHEN TO APPLY SSVS1 (P. 33)

42. SSVS1 applies to:
- a. Engagements to estimate value for litigation support or expert witness purposes.
 - b. Economic damages computations that incorporate a terminal value.
 - c. Valuation of a shareholder's stock purchase price based on a shareholder's agreement.
 - d. All of the above.

PENSION PROTECTION ACT CHANGES VALUATIONS FOR TAX PURPOSES (P. 40)

43. For non-cash contributions, the Pension Protection Act of 2006 shifts some responsibility for accurate valuations to the:
- a. Taxpayer.
 - b. Appraiser.
 - c. Tax preparer.
 - d. IRS.
 - e. None of the above.
44. The new law affects:
- a. Charitable contributions.
 - b. Gift tax matters.
 - c. Estate tax matters.
 - d. A, b, and c.
 - e. A and b but not c.

A BID FOR FAIR VALUE (P. 42)

45. Employee Stock Option Appreciation Rights Securities (ESOARS) are derivative securities whose value depends on:
- a. The price of the underlying share of stock.
 - b. The vesting and exercise patterns of the underlying stock options to which they are tied.
 - c. Both a and b.
 - d. Neither a nor b.

EIGHT HABITS OF HIGHLY EFFECTIVE AUDIT COMMITTEES (P. 46)

46. True/False? The SEC requires audit committees of listed companies to prepare an annual audit committee report.
- a. True.
 - b. False.

CPAs AS CORPORATE DIRECTORS (P. 52)

47. Section 407 of SOX requires ____ companies to have at least one “financial expert” on an audit committee.
- a. Publicly-traded
 - b. Privately-held
 - c. Both a and b
 - d. Neither a nor b

S CORPORATION PROFITS OR PAYDAY? (P. 60)

48. The “60-40 approach:”
- a. Refers to a split between salary and distributions of 60% - 40%.
 - b. Represents a “safe harbor” for salary payments for shareholder employees.
 - c. Is an IRS rule.
 - d. A, b, and c.
 - e. A and b but not c.

TAX MATTERS (P. 82)

49. In which of the following cases did the taxpayer successfully use the argument that an overstatement of basis is not an omission of gross income that triggers the six-year statute?
- a. *Bakersfield Energy Partners LP v. Commissioner.*
 - b. *Grapevine Imports Ltd v. U.S.*
 - c. Both a and b.
 - d. Neither a nor b.

FROM *The Tax Adviser* (P. 88)

50. When a lender forgives some or all of the unpaid debt associated with a foreclosure or deed in lieu of foreclosure, the borrower will be liable for debt discharge income unless the debtor either declared bankruptcy or was insolvent at the time of discharge.
- a. True.
 - b. False.

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

Thank you for using our Quarterly CPE Exams!