

Supplementary Study Packet to Accompany Quarterly CPE Exam on the

Journal of Accountancy – Fourth Quarter 2010

Instructions: Before you start a section of the CPE Final Exam, complete the corresponding section of this Supplementary Study Packet. Do NOT submit answers to the Review Questions.

Purpose: To Comply with Requirement that Self-Study CPE courses provide an interactive learning experience.

OUTLINE:

Sections 1 – 3 Relate to the *Journal of Accountancy* of October 2010:

Section 1: Comparing the Ethics Codes: AICPA and IFAC (October 2010 JoA, Page 24)

Section 2: Guard Against Cybertheft (October 2010 JoA, Page 42)

Section 3: Income Tax Accounting for Trusts and Estates (October 2010, JoA, Page 62)

Sections 4 – 10 Relate to the *Journal of Accountancy* of November 2010:

Section 4: IRS Amends Plan for Uncertain Tax Positions (November JoA, Page 26)

Section 5: Competitive Analysis of Business Valuation Services (November JoA, Page 36)

Section 6: How To Be a Better Mentor (November JoA, Page 42)

Section 7: Navigating Nexus (November JoA, Page 48)

Section 8: Tax Practice Corner – Deferring COD Income (November JoA, Page 60)

Section 9: Tax Matters (November JoA, Page 62)

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

Sections 11 - 15 Relate to the *Journal of Accountancy* of December 2010:

Section 11: Highlights of the Small Business Stimulus Act (December JoA, Page 27)

Section 12: 2010 Small Business Jobs Act: Good for Big Business (December JoA, Page 30)

Section 13: Proposed Changes to GAO's Yellow Book Promote Harmonization (December JoA, P. 36)

Section 14: Deductibility of Work-Related Educational Expenses (December JoA, Page 42)

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

Section 1: Comparing the Ethics Codes: AICPA and IFAC (October 2010 JoA, Page 24)

Section 1 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 1 through 9.

Section 1 Objectives:

1. To describe the latest edition of the International Ethics Standards Board (IESBA) Code of Ethics for Professional Accountants (IESBA Code).
2. To compare and contrast the IESBA and AICPA Codes.
3. To show instances in which IESBA independence requirements generally exceed AICPA requirements.
4. To show instances in which AICPA independence requirements generally exceed IESBA requirements.

Section 1 Review Questions:

1. Which of the following organizations apportion(s) the principles and rules of its /their code(s) of ethics?
 - a. IESBA.
 - b. AICPA.
 - c. Both a and b.
 - d. Neither a nor b.
2. True/False? There are no significant differences between the IESBA and the AICPA codes.
 - a. True.
 - b. False.
3. The _____ Code(s) is / are generally considered to be principles-based rather than rules-based.
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b
4. The _____ use(s) the conceptual framework approach to evaluate ethical conduct in every situation.
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b
5. Both the IESBA and the AICPA base(s) independence standards on the conceptual framework approach.
 - a. True.
 - b. False.
6. The _____ split(s) independence requirements into two sections, one for audits and reviews of financial statements, and another (less restrictive) that applies to all other assurance engagements.
 - a. IESBA
 - b. AICPA
 - c. Both a and b
 - d. Neither a nor b
7. True/False? The AICPA has agreed to have ethics standards that are at least as stringent as the IESBA standards.
 - a. True.
 - b. False.
8. True/False? The AICPA Professional Ethics Executive Committee (PEEC) may propose new or revised interpretations of AICPA rules if they are less strict than comparable guidance in the IESBA Code.
 - a. True.
 - b. False.
9. True/False? Convergence means that PEEC will adopt lower standards when the IESBA standards are less strict.
 - a. True.
 - b. False.

Section 1 Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 26 of October JoA.)

- a. **Correct.** The IESBA Code is divided into three parts. Part A applies to *all* professionals and accountants; Part B only to persons in public accounting, and Part C to persons in business (i.e., everyone who is not in public accounting).
- b. Incorrect. The AICPA does not apportion its principles and rules in this manner.
- c. Incorrect. Only the IESBA apportions its principles and rules.
- d. Incorrect. The IESBA does apportion.

Review Question 2. (Please see page 25 of October JoA.)

- a. True is incorrect. Some significant differences still exist.
- b. **False is correct.** While the two codes are more similar than different, some significant differences still exist.

Review Question 3. (Please see page 25 of October JoA.)

- a. **Correct.** The IESBA Code is generally considered to be a principles-based code.
- b. Incorrect. The AICPA Code is more rules-based than that of the IESBA.

Review Question 4. (Please see page 25 of October JoA.)

- a. **Correct.** The IESBA uses the conceptual framework approach to evaluate ethical conduct throughout its code.
- b. Incorrect. The AICPA only requires members to use the approach if the rules do not address their situation.
- c. Incorrect. The AICPA does not always use the conceptual framework approach to evaluate ethical conduct.
- d. Incorrect. The IESBA does use the conceptual framework approach throughout its code.

Review Question 5. (Please see page 28 of October JoA.)

- a. **True is correct.** Both organizations base independence standards on the conceptual framework.
- b. False is incorrect. The conceptual framework is used by both organizations.

Review Question 6. (Please see page 31 of the text.)

- a. **Correct.** The IESBA pursues a split-level independence approach.
- b. Incorrect. The AICPA does not bifurcate its independence standards.
- c. Incorrect. Only the IBSBA pursues a split-level independence approach.
- d. Incorrect. The IESBA does pursue a split-level independence approach.

Review Question 7. (Please see page 31 of the text.)

- a. **True is correct.** As a member body of IFAC, the AICPA agreed to have ethics standards that are at least as stringent as the IESBA standards.
- b. False is incorrect. This is an example of a convergent project to align the AICPA with the IESBA Code.

Review Question 8. (Please see page 31 of the text.)

- a. **True is correct.** Because the AICPA has agreed to have ethics standards that are at least as stringent as the IESBA standards, the AICPA would properly pursue higher standards.
- b. False is incorrect. This is an example of convergence.

Review Question 9. (Please see page 31 of the text.)

- a. True is incorrect. The AICPA cannot have ethics standards lower than those of the IESBA.
- b. **False is correct.** The AICPA has agreed to have ethics standards that are at least as stringent as the IESBA standards.

===== **End of Section 1**

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.

Section 2: Guard Against Cybertheft (October 2010 JoA, Page 42)

Section 2 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 10 through 14.

Section 2 Objectives:

1. To describe the cybertheft crimes, how they are perpetrated, the associated risks and some preventative measures.
2. To highlight the risks associated with having ones computer highjacked and having bank accounts emptied by cyberthieves.
3. To describe specific measures for preventing and detecting EFT fraud.

Section 2 Review Questions:

1. In electronic funds transfer fraud, a criminal:
 - a. Obtains financial banking credentials.
 - b. Hijacks a corporate computer.
 - c. Steals money from victims' bank accounts.
 - d. All of the above.
 - e. A and b but not c.
2. Illicitly acquiring login credentials is usually accompanied by:
 - a. Using a malicious program distributed as an e-mail attachment.
 - b. An unintended Web browsing download.
 - c. File transfer of what appears to be a legitimate file.
 - d. Any of the above.
 - e. None of the above.
3. To avoid being liable for a loss, a business must notify the bank within _____ day(s) of a fraudulent ACH transaction.
 - a. One
 - b. Two
 - c. Three
 - d. Four
4. A bank may be able to avoid responsibility for funds lost in ETF fraud if:
 - a. The fraud can be traced to a security breach in the victim's computer.
 - b. The customer is not in compliance with the bank's security authentication procedures.
 - c. Either a or b.
 - d. Neither a nor b.
5. ACH transactions are generally more difficult to recover than wire transfers.
 - a. True.
 - b. False.

Section 2 Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 43 of October JoA.)

- a. Incorrect. This is only part of the EFT cybertheft.
- b. Incorrect. This is a part of, but not all of, the EFT cybertheft.
- c. Incorrect. This is only part of the EFT cybertheft.
- d. **Correct.** Cybertheft involves all three (a, b and c).
- e. Incorrect. All three are components of cybertheft.

Review Question 2. (Please see page 44 of October JoA.)

- a. Incorrect. File transfer is only one way of illicitly acquiring login credentials.
- b. Incorrect. Unintended Web browsing download is only one way of illicitly acquiring login credentials.
- c. Incorrect. File transfer of what appears to be a legitimate file is only one way of illicitly acquiring login credentials.
- d. **Correct.** Login credentials may be illicitly acquired using any of the three methods.
- e. Incorrect. Any of the three (a, b, or c) are ways of illicitly acquiring login credentials.

Review Question 3. (Please see page 44 of October JoA.)

- a. Incorrect. But a fraudulent wire transfer demands detection within hours – less than two days.
- b. **Correct.** A business must notify the bank within two days of a fraudulent ACH transfer to avoid liability for loss.
- c. Incorrect. The banks’ lobbyists were very effective in protecting the banks.
- d. Incorrect. The business is now two days past its deadline for notifying the bank.

Review Question 4. (Please see page 44 of October JoA.)

- a. Incorrect. True, but the bank may also avoid responsibility for funds lost if the customer is not in compliance with the bank’s security authentication procedures.
- b. Incorrect. True, but the bank may also avoid responsibility for funds lost funds if the fraud can be traced to a security breach within the victim’s computer.
- c. **Correct.** The bank may avoid responsibility for lost funds if either (a) or (b) is true.
- d. Incorrect. To avoid responsibility, either (a) or (b) must be true.

Review Question 5. (Please see page 46 of October JoA.)

- a. True is incorrect. The statement is not true because ACH transactions usually take a day or two because of the float associated with the use of a clearinghouse.
- b. **False is correct.** The statement is false because wire transfer fraud can go from the victim’s bank, through an intermediary, and end up in the overseas accounts within just a few minutes.

===== End of Section 2

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.

Section 5: A Competitive Analysis of Business Valuation Services (November 2010, JoA, Page 36)

Section 5 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 26 through 27.

Section 5 Objectives:

1. To illustrate a competitive analysis of the business valuation services industry by applying the management theory developed by Michael E. Porter.
 - a. Threat of entry of new competitors
 - b. Bargaining power of customers
 - c. Threats of substitute services or products
 - d. Intensity of competitive rivalry
 - e. Bargaining power of suppliers
2. To explain how the model can be applied to other professional services or to any product's life cycle.
3. To use the results of the competitive analysis to develop a strategic plan to best allocate resources to achieve desired results.

Section 5 Review Questions:

1. True/False? The job market of professional valuation employees is most closely associated with the first competitive force: the threat of entry of new competition.
 - a. True.
 - b. False.
2. True/False? "Calculation engagements" are most associated with the fourth force: intensity of competitive rivalry.
 - a. True.
 - b. False.

Section 5 Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 38 of November JoA.)

- a. True is incorrect. The threat of entry of new competitors has more to do with the new competitive landscape shaped by a large increase in newly-credentialed appraisers and lower barriers to entry.
- b. **False is correct.** The job market for valuation professionals is most closely associated with the fifth force: bargaining power of suppliers. In professional services such as valuation (or auditing or tax services, etc.), the key "suppliers" to the industry are the professional employees providing the services.

Review Question 2: (Please see Page 40 of November JoA.)

- a. True is incorrect. Intensity of competitive rivalry is marked by forces such as price pressures, quality and innovation associated with actions taken by competitors.
- b. **False is correct.** Calculation engagements are seen, in some circumstances, as an alternative to a more comprehensive valuation engagement. The calculation engagement is a more limited analysis that comes with a lower price.

=====End of Section 5

Section 8: Tax Practice Corner - Deferring COD Income: Burden May Outweigh Benefit (Nov 2010, JoA, Page 60)

Section 8 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 35 through 36.

Section 8 Objectives:

1. To describe the potential tax benefit of deferring certain cancellation of debt income.
2. To describe the complex recordkeeping and reporting requirements.

Section 8 Review Questions:

1. True/False? The bankruptcy or insolvency exclusion is determined at the partnership or S corporation level.
 - a. True.
 - b. False.
2. AB Partnership was made up of two limited partners, one of whom was solvent, and the other, insolvent. Which partner(s) would want to rely on the exclusion?
 - a. The bankrupt partner.
 - b. The solvent partner.
 - c. Both a and b.
 - d. Neither a nor b.

Section 8 Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 60 November JoA.)

- a. True is incorrect. Although the deferral election is made at the partnership level, the bankruptcy or insolvency exclusion is not.
- b. **False is correct.** The bankruptcy or insolvency exclusion is determined at the partner or shareholder level, not at the partnership or S corporation level.

Review Question 2: (Please see Page 60 November JoA.)

- a. **Correct.** In AB Partnership, the insolvent or bankrupt partner would want to rely on the exclusion.
- b. Incorrect. In AB Partnership solvent partner would want to rely on the new election to effectuate the deferral.
- c. Incorrect. Only the bankrupt partners would rely on the exclusion and not the solvent partners.
- d. Incorrect. Neither partner would rely on the exclusion.

===== End of Section 8

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.

Section 10: From *The Tax Adviser: Health Care Reform Mandates Immediate Changes* (November 2010, JoA, Page 68)

Section 10 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam question 40.

Section 10 Objectives:

1. To describe some of the changes mandated by the new health care legislation.
2. To describe the phase-in of some of the major changes.

Section 10 Review Question:

1. True/False? All of the employer-related changes are scheduled to take effect on January 1, 2011.
 - a. True.
 - b. False.

Section 10 Solutions and Suggested Responses to Review Question:

Review Question 1. (Please see Page 68 of November JoA.)

- a. True is incorrect. Many of the changes are scheduled to become effective over a period of several years. Few are scheduled to take effect on January 1, 2011.
- b. **False is correct.** While some changes will be effective as of January 1, 2011, others may be effective either before the end of 2010 or after January 1, 2011.

===== End of Section 10

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.

Section 14: Deductibility of Work-Related Educational Expenses (December 2010, JoA, P. 42)

Section 14 Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our objectives.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 57 through 58.

Section 14 Objectives:

1. To describe the rules for deducting educational expenses.
2. To show examples of deductible educational expenses.
3. To show examples of nondeductible educational expenses.

Section 14 Review Questions:

1. True/False? A taxpayer may deduct the expense of education to meet an employer's minimum requirements for a position.
a. True. b. False.
2. True/False? Room and board expenses are considered qualified expenses for the American opportunity credit.
a. True. b. False.

Section 14 Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 43 of December JoA.)

- a. True is incorrect. Some education expenses are deductible but this is a category that is expressly nondeductible.
- b. False is **correct**. Improperly deducting such an expenditure would be an example of not following the rules.

Review Question 2. (Please see Page 43 of December JoA.)

- a. True is incorrect. Tuition usually qualifies for the credit but not room and board expense.
- b. False is **correct**. Other expenses that don't qualify include transportation expenses.

===== End of Section 14

