

**Supplementary Study Packet to Accompany Quarterly CPE Exam
on the
Journal of Accountancy –
Second Quarter 2011**

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 provide an interactive learning experience.

OUTLINE: (Page numbers below refer to the first page of each article in the printed version of the *JoA*.)

Sections I –V Relate to the *Journal of Accountancy* of April 2011

Section I. Checklist: How To Manage Fluctuations in Foreign Currency Rates (Page 19)

Section II. What Does It Take To Lead? (Page 34)

Section III. Renewed Focus on Loss Contingency Disclosures (Page 37)

Section IV. Tax Relief for Homeowners With corrosive Drywall (Page 45)

Section V. Tax Practice Corner: IRA Charitable Distributions No Panacea (Page 50)

Sections VI – IX Relate to the *Journal of Accountancy* of May 2011:

Section VI. FASB Prepares To Reprioritize: An Interview with Chairman Leslie Seidman, (Page 32)

Section VII. Business Basics in China, (Page 42)

Section VIII. In-Plan Roth Conversions: Planning and Administrative Considerations, (Page 48)

Section IX. Tax Practice Corner: Scholarships and Support, (Page 56)

Sections X - XII Relate to the *Journal of Accountancy* of June 2011:

Section X. Clarified Auditing Standards: The Quiet Revolution (Page 24)

Section XI. Improving the Code of Professional Conduct (Page 38)

Section XII. Seven Good Reasons Credit Shelter Trust Remain Relevant (P. 44)

Section III. Renewed Focus on Loss Contingency Disclosures (Page 37)

Section III. Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our course 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 7 through 11.

Section III. Course Objectives:

1. To describe the issues associated with the SEC's increased scrutiny of compliance with financial statement disclosure rules.
2. To describe ASC Topic 450, *Contingencies*.
3. To describe “the treaty” for auditor-lawyer dialogue.
4. To describe the pending FASB exposure draft on contingencies.

Section III. Review Questions:

1. True/False? The treaty is a part of generally accepted accounting principles for contingencies.
- a. True.
 - b. False.

2. True/False? The treaty represents an accord between the accounting profession and the legal profession.
- a. True.
 - b. False.

3. True/False? ASC Topic 450 seeks to increase the transparency of possible litigation costs.
- a. True.
 - b. False.

4. True/False? Many in the accounting profession fear that increased disclosure (as required in the pending exposure draft) would provide plaintiffs with ammunition to use to seek damages from reporting companies.
- a. True.
 - b. False.

5. True/False? Both existing GAAP as well as the pending exposure draft call for forward-looking predictions.
- a. True.
 - b. False.

Section III. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see P. 38 of April JoA.)

- a. True is incorrect. The treaty is not part of GAAP.
- b. **False is correct.** The treaty is only an agreement between two professions.

Review Question 2. (Please see P. 38.)

- a. **True is correct.** The treaty is a written agreement between the accounting and legal professions.
- b. False is incorrect. While it is not a part of GAAP, it is an accord between the two professions.

Review Question 3. (Please see P. 38.)

- a. **True is correct.** The pending exposure draft would require more explicit disclosures.
- b. False is incorrect. Compared to current standards, the pending standard would require disclosures of actual accounting estimates related to possible litigation costs.

Review Question 4. (Please see P. 38.)

- a. **True is correct.** Many fear that plaintiffs would use the financial disclosures as a floor for damages.
- b. False is incorrect. Financial disclosures would provide more explicit estimates.

Review Question 5. (Please see P. 39.)

- a. **True is correct.** Current standards as well as the proposal involve forward-looking predictions..
- b. False is incorrect. The difference is that the proposed predictions would be more explicit.

-----End of Section III.

Section IV. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 45.)

- a. True is incorrect. The corrosive drywall was imported but from a country other than Vietnam.
- b. **False is correct.** The corrosive gypsum plasterboard (i.e. drywall) was imported from China.

Review Question 2. (Please see Page 45.)

- a. **True is correct.** The repair of these hurricane-ravaged areas created such a demand for drywall that much of it was imported from China.
- b. False is incorrect. While there were a number of reports from Virginia and a few other states, the great majority of the corrosive drywall problems were reported in the states named in the question.

Review Question 3. (Please see Page 48.)

- a. True is incorrect. While section 165 requires that a casualty loss be “swift and precipitous,” the safe harbor provides relief from that requirement.
- b. **False is correct.** One of the advantages of the safe harbor is that the loss need not be “swift.”

Review Question 4. (Please see Page 48.)

- a. True is incorrect. While many of the losses were incurred in the coastal states, the provisions of the safe harbor apply to any taxpayer subject to IRS regulations.
- b. **False is correct.** IRS *Revenue Procedure 2010-36* applies only to taxpayers with qualified losses anywhere in the United States.

Review Question 5. (Please see Page 48.)

- a. True is incorrect. Unlike the section 165 that requires that the loss be claimed in the year it was sustained, the safe harbor provides relief from that requirement.
- b. **False is correct.** IRS *Revenue Procedure 2010-36* allows taxpayers with qualified losses to take the deduction in the year in which they pay for the repairs.

Review Question 6. (Please see Page 47.)

- a. True is incorrect. Unlike the section 165 that requires that the loss be measured in the way described, the safe harbor provides that taxpayers may claim the qualified amounts paid.
- b. **False is correct.** IRS *Revenue Procedure 2010-36* allows taxpayers with qualified losses to deduct the amounts paid for qualifying repairs.

Review Question 7. (Please see Page 48.)

- a. True is incorrect. The casualty loss described in the article relates to personal property and is not a tax preference item.
- b. **False is correct.** Taxpayers must reduce their basis in the home by the amount of the casualty loss deduction and any reimbursements from insurance or otherwise.

===== End of Section IV.

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Section VIII. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 48.)

- a. True is incorrect. Participants in 457 (b) plans were not eligible for such rollovers in 2008.
- b. **False is correct.** The enabling legislation wasn't passed or effective until after 2008.

Review Question 2: (Please see Page 49.)

- a. **True is correct.** Before an in-service distribution can be made, the plan document must permit it.
- b. False is incorrect. The legislation allowing such distributions enabled employers to amend their plans to allow such distributions.

Review Question 3: (Please see Page 49.)

- a. **True is correct.** Conversion of a traditional qualified plan to a Roth is a taxable event..
- b. False is incorrect. Just as with the conversion of a traditional IRA into a Roth, the conversion of 457(b) plan to a Roth plan is a taxable event..

Review Question 4: (Please see Page 49.)

- a. **True is correct.** Conversion of a traditional qualified plan to a Roth is a taxable event..
- b. False is incorrect. Just as with the conversion of a traditional IRA into a Roth, the conversion of 457(b) plan to a Roth plan is a taxable event..

Review Question 5: (Please see Page 49.)

- a. **True is correct.** Conversion of a traditional qualified plan to a Roth is a taxable event..
- b. False is incorrect. Just as with the conversion of a traditional IRA into a Roth, the conversion of 457(b) plan to a Roth plan is a taxable event..

Review Question 6. (Please see Page 50.)

- a. True is incorrect. Spousal consent is not required.
- b. **False is correct.** The account holder is not required to get consent of his or her spouse.

Review Question 7. (Please see Page 49.)

- a. **True is correct.** ERISA plans offer greater asset protection than Roth IRAs.
- b. False is incorrect. Roth IRA plans are not shielded from creditors.

Review Question 8. (Please see Page 49.)

- a. **True is correct.** Assuming certain conditions are met, a surviving spouse may be eligible.
- b. False is incorrect. The conditions are that the amount is vested and that the plan has a qualified Roth conversion program in place at the time an IPRC is made to the Roth account.

Review Question 9. (Please see Page 49.)

- a. **True is correct.** This is a condition of eligibility for an in-plan conversion.
- b. False is incorrect. Only vested amounts are eligible.

===== End of Section VIII.

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Section XI. Improving the *Code of Professional Conduct* (June 2011, JoA Page 38)

Section XI. Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our course 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 50 through 55.

Section XI. Course Objectives:

1. To describe a project of the AICPA's Professional Ethics Executive Committee (PEEC).
2. To describe the AICPA's minimum ethical standards as a member of the International Federation of Accountants.
3. To describe the meaning of a conceptual framework..
4. To describe structural changes of the document.

Section XI. Review Questions:

1. True/False? The primary focus of the PEEC project is improving the AICPA's *Code of Professional Conduct* so that members and others can apply the rules and reach correct conclusions more easily.
 - a. True.
 - b. False.
2. True/False? The AICPA *Code* is not currently codified.
 - a. True.
 - b. False.
3. True/False? The goal of the conceptual framework is to address all of the issues that practitioners can encounter..
 - a. True.
 - b. False.

The next three questions deal with the illustrative case dealing with the situation involving an audit partner, the daughter who is a human resources manager with the audit client, and an unexpected and expensive gift.

4. True/False? Because the gift was made to the daughter instead of to the audit partner, there is no independence issue.
 - a. True.
 - b. False.
5. True/False? The Code requires that the audit partner apply the framework to make an independence decision.
 - a. True.
 - b. False.
6. True/False? Having the daughter return the gift would eliminate the threat to the audit partner's independence.
 - a. True.
 - b. False.

Section XI. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Pages 38.)

- a. **True is correct.** The idea is to make ethical standards more consistent by revising the wording and structure of the *Code*.
- b. False is incorrect. Making access to the *Code* easier should result in improvements..

Review Question 2. (Please see Page 39.)

- a. True is incorrect. While the AICPA *Code* is technically “codified,” some subjects are scattered about the *Code*, making it more difficult for users to know whether they have considered all the relevant standards.
- b. **False is correct.** The *Code* is still not completely codified. The changes described in the article will make it much more helpful to users.

Review Question 3. (Please see Page 40.)

- a. True is incorrect. Because there is no way to anticipate every situation, it is not possible for any code to include every situation.
- b. **False is correct.** The committee took the position that a conceptual framework was a better approach because it laid out a plan of how research situations.

Review Question 4. (Please see Page 41.)

- a. True is incorrect. The AICPA revealed that the situation was an “undue influence” threat to his independence. At a minimum, the appearance of lack of independence was real.
- b. **False is correct.** At a minimum, the appearance of lack of independence was enough to wave a flag

Review Question 5. (Please see Page 42.)

- a. **True is correct.** Because the *Code* is silent about gifts given to close relatives, the *Other Considerations* section of the *Code* require that he apply the framework.
- b. False is incorrect. Consulting the *Code* revealed that the audit partner was required to apply the conceptual framework..

Review Question 6. (Please see Page 42.)

- a. **True is correct.** The research and consulting the framework revealed that the only safeguard that would eliminate the threat to his independence was to have his daughter return the gift (or withdraw from the engagement and have another partner in the firm complete the audit).
- b. False is incorrect. After making the decision, he also discussed the facts with his partners and agreed to bring the matter to the attention of the firm's audit committee.

=====End of Section XI.

Section XII. Seven Good Reasons Credit Shelter Trusts to Remain Relevant (Page 44)

Section XII. Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our course 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 56 through 60.

Section XII. Course Objectives:

1. To describe the new provisions of the Tax Reform Act of 2010.
2. To describe why each of seven reasons why credit shelter trusts still have a role in estate planning.

Section XII. Review Questions:

1. True/False? The *Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010* contained provisions extending “applicable exclusion amounts” to estates of decedents dying and gifts made after a certain point in time.
a. True. b. False.
2. True/False? The “applicable exclusion amount” shall equal \$5 million.
a. True. b. False.
3. True/False? Provisions of the Tax Relief Act effectively remove any reasons for establishing credit shelter trusts.
a. True. b. False.
4. True/False? The state estate tax exclusion is portable.
a. True. b. False.
5. True/False? Portability requires “privity” between spouses.
a. True. b. False.

Section XII. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 44.)

- a. **True is correct.** The Tax Relief Act provided such tax relief after a specific date.
- b. False is incorrect. The legislation arrived late, ending a long period of uncertainty from Congress.

Review Question 2. (Please see Page 45.)

- a. True is incorrect. The amount was initially established at \$5 million but was indexed for inflation.
- b. **False is correct.** Because it was indexed to inflation, the \$5 million is merely a beginning level.

Review Question 3. (Please see Page 45.)

- a. True is incorrect. There are several reasons why credit shelter trusts still have value..
- b. **False is correct.** The article spells out several reasons including the uncertainty of continuation.

Review Question 4. (Please see Page 46.)

- a. True is incorrect. So far, no states have begun to offer portability.
- b. **False is correct.** Portability is offered only for federal estate tax, not state estate taxes.

Review Question 5. (Please see Page 46.)

- a. **True is correct.** Only the estate tax exclusion of the immediately predeceased spouse of the surviving spouse is portable.
- b. False is incorrect. This could be significant if the surviving spouse remarries.

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End of Section XII.

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