

**Supplementary Study Packet
to Accompany
Quarterly CPE Exam
on the
Journal of Accountancy –
Fourth 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 October 2011:

- Section I.** The iPad Decision (Page 26)
- Section II.** Planning for Uncertainty (Page 32)
- Section III.** Act Public Before Going Public (Page 38)
- Section IV.** Eight Ways To Expand Your Mentoring Network (Page 44)
- Section V.** Tax Practice Corner (Page 64)

Sections VI – X Relate to the *Journal of Accountancy* of November 2011:

- Section VI.** Valuing Contingent Consideration: Challenges and Solutions (Page 28)
- Section VII.** Business Basics in Brazil (Page 34)
- Section VIII.** What's Your Fraud IQ (Page 42)
- Section IX.** Charitable Contributions of Conservation Easements (Page 58)
- Section X.** (Three tax columns grouped as one Section)
 - Tax Practice Corner: Short-term Rentals Preclude Use of Losses (Page 64), and
 - Tax Matters (P. 66).

Sections XI – XIV Relate to the *Journal of Accountancy* of December 2011:

- Section XI.** Building Blocks of a Successful Close Process (Page 18)
- Section XII.** A Quick Guide to Quickbooks (Page 24)
- Section XIII.** Technology 2012 Preview: Part 2 (Page 30)
- Section XIV.** (Three columns grouped as one Section:)
 - Tax Practice Corner: Offers In Compromise And Dissipated Assets (P. 54)
 - Tax Matters (P. 56)
 - From *The Tax Adviser*: Schedule M-3 Requires New Disclosures (P. 63)

Section III. Act Public Before Going Public (Page 38)

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 9 through 12 .

Section III. Course Objectives:

1. To describe the issues of managing tax accounting when preparing for an IPO.
2. To describe establishing an independent, proficient tax team required of public companies.
3. To describe developing and refining tax internal controls required of public companies.
4. To describe implementing and practicing a quarterly close process.
5. To describe effective tax rate (ETR) reduction strategies.

Section III. Review Questions:

1. True/False? The number of U.S. Companies making initial public offerings has been declining for the last five years.
a. True. b. False.
2. True/False? Companies are advised not to begin following practices required of public companies until after the IPO has occurred.
a. True. b. False.
3. True/False? Public companies can generally continue to have their independent auditors prepare tax provisions required under ASC Topic 740.
a. True. b. False.
4. True/False? Public companies are required to maintain tax provision worksheets that are clear and understandable without requiring oral explanation.
a. True. b. False.

Section III. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see P. 37 of October JoA.)

- a. True is incorrect. The number of IPOs among U.S. companies has been rising in recent years.
- b. **False is correct.** Until recent months, IPO activity has increased annually.

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

- a. True is incorrect. The authors encourage companies to begin acting “public” before going public..
- b. **False is correct.** The authors cite numerous advantages to companies anticipating going public to initiate practices required of public companies while they are still private.

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

- a. True is incorrect. Public companies are required to have tax provisions prepared by sources independent of their auditor.
- b. **False is correct.** Auditors of public companies cannot prepare tax provisions of companies they're auditing.

Review Question 4. (Please see P. 41.)

- a. **True is correct.** The supporting workpapers should incorporate all elements necessary to facilitate company and auditor review.
- b. False is incorrect. At a minimum, the tax provision workpapers should include the key features addressed by the Exhibit 3 of the article.

-----End of Section III.

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

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Section IV. Eight Ways To Expand Your Mentoring Network (Page 44)

Section IV. 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 13 through 16.

Section IV. Course Objectives:

1. To describe the benefits of a mentoring network.
2. To describe eight suggestions for accountants expand their mentoring network.

Section IV. Review Questions:

1. True/False? The focus of this article is on formal mentoring programs.
a. True. b. False.
2. True/False? Mentoring programs should randomly assign mentors to higher-ranking employees.
a. True. b. False.
3. True/False? Mentoring relationships should not include discussions of personal issues such as work/family concerns.
a. True. b. False.
4. True/False? The best mentor for CPAs is his or her immediate supervisor.
a. True. b. False.

Section IV. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 45.)

- a. True is incorrect. The focus of the article was on informal mentoring programs.
- b. **False is correct.** The article is built around eight suggestions for CPAs who do not have access to a formal mentoring program.

Review Question 2. (Please see Page 45.)

- a. True is incorrect. Mentors should not be assigned
- b. **False is correct.** The article is built around eight suggestions for CPAs who do not have access to a formal mentoring program.

Review Question 3. (Please see Page 45.)

- a. True is incorrect. Employees need mentoring in personal as well as professional matters.
- b. **False is correct.** Often, it is ideal to have one mentor to call on for personal matters and a second mentor for professional matters.

Review Question 4. (Please see Page 46.)

- a. True is incorrect. If ones supervisor happens to also be well qualified to be a mentor, that's great but not all supervisors make good mentors.
- b. **False is correct.** A CPA should look around (even being alert to finding possible great mentors at social activities) for an effective mentor. Often one can find a better mentor than ones supervisor.

===== End of Section IV.

Section V. Tax Practice Corner (P. 64)

Section V. 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 17 through 18.

Section V. Course Objectives:

1. To describe the kinds of income subject to self-employment tax.
2. To describe the kinds of income *not* subject to self-employment tax.

Section V. Review Questions:

1. True/False? Any compensation received from sources other than an employer is subject to self-employment tax.
 - a. True.
 - b. False.
2. True/False? The self-employment tax currently only applies to the first \$106,800 of earnings each year.
 - a. True.
 - b. False.

Section V. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 64.)

- a. True is incorrect. Income earned from sporadic, nonrecurring sources may sometimes be free of self-employment tax.
- b. **False is correct.** Self-employment tax is intended to tax compensation from carrying on a business involving producing a product or service on a recurring basis with the intention of earning a profit.

Review Question 2. (Please see Page 64.)

- a. True is incorrect. Only the Social Security tax is subject to the \$106,800 ceiling.
- b. **False is correct.** All self-employment income is subject to the Medicare tax, and there is no ceiling on earnings subject to the tax.

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Section VII. Business Basics in Brazil (P. 34)

Section VII. 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 23 through 26.

Section VII. Course Objectives:

1. To describe certain legal and regulatory aspects of doing business in Brazil, including forms of business organization, intellectual property rights, Brazilian currency laws, etc.
2. To describe an overview of Brazil's tax system, including compliance and reporting system, tax incentives, etc.
3. To describe certain Brazilian regulations on transactions involving remittance of dividends, exchange rate risk, etc.
4. To describe some basic aspects about the Brazilian business environment and culture.

Section VII. Review Questions:

1. True/ False? Roughly one-quarter of the companies in Brazil are publicly-owned.
a. True. b. False.
2. True/False? There are no software property rights in Brazil.
a. True. b. False.
3. True/False? Brazil's currency, the real, can be bought and sold outside Brazil.
a. True. b. False.
4. True/False? True/False? Some companies are not required to calculate their income tax liability under the "actual profit regimes."
a. True. b. False.

Section VII. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 36.)

- a. True is incorrect. Fewer than 1% of Brazilian companies are publicly-held.
- b. **False is correct.** Only around 1,000 of Brazil's 6.2 million companies are publicly-held.

Review Question 2: (Please see Page 37.)

- a. True is incorrect. While there are still some areas of concern, Brazil offers software property rights.
- b. **False is correct.** Software property rights are protected for 50 years in Brazil.

Review Question 3. (Please see Page 37).

- a. True is incorrect. The real cannot be bought or sold outside Brazil.
- b. **False is correct.** The real is not convertible.

Review Question 4: (Please see Page 39.)

- a. **True is correct.** Only companies with certain characteristics of size of gross income or that fall in certain industries are required to calculate their income tax liability under the actual profit regime.
- b. False is incorrect. Other companies calculate income tax liability under a "presumed profit regime."

===== End of Section VII.

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Section X. (Two tax columns grouped as one Section)

Tax Practice Corner: Short-Term Rentals Preclude Use of Losses (Page 64),
Tax Matters (P. 66)

Section X. Assignment:

1. Study the articles (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 34 - 36

Section X. Course Objectives:

1. To describe the requirements of the 750-hour material participation rule for material participation.
2. To describe the implications of short term rentals to the taxpayer's overall tax position.
3. To describe the tax treatment of noncompete agreements.

Section X. Review Question:

1. True/False? Up to \$25,000 of passive losses from rental real estate may be deducted against nonpassive income.
a. True. b. False.
2. True/False? In *Todd and Pamela Bailey v. Commissioner*, The \$25,000 loss allowance under section 469 (i) (2) is phased out when taxpayers' combined adjusted income exceeded \$150,000.
a. True. b. False.
3. True/False? Within prescribed limits, section 197 intangibles may be amortized over one-year terms.
a. True. b. False.

Section X. Solutions and Suggested Responses to Review Question:

Review Question 1. (Please see Page 64.)

- a. **True is correct.** The key to this sentence is “passive losses;” such losses may be deducted against nonpassive income.
- b. False is incorrect. Up to \$25,000 of passive losses may be deducted against nonpassive income.

Review Question 2. (Please see Page 64.)

- a. **True is correct.** Up to \$25,000 of such losses may be deducted subject to phase out for taxpayers whose combined adjusted gross income exceeds \$150,000.
- b. False is incorrect. The ability to recognize such a loss is subject to an income test.

Review Question 3. (Please see Page 66.)

- a. True is incorrect. Section 197 depreciation only relates to tangible assets.
- b. **False is correct.** Intangible assets are not eligible for 12-month depreciation under Section 197.

===== End of Section X.

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Section XII. A Quick Guide to QuickBooks (Page 24)

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 41 through 43.

Section XII. Course Objectives:

1. To describe 15 intermediate and advanced features of QuickBooks.
2. To describe how to use these features.
3. To describe how to access more help from QuickBooks' Learning Center.

Section XII. Review Questions:

1. True/False? QuickBooks is now the third most widely used accounting system in the world.
a. True. b. False.
2. True/False? In the author's opinion, QuickBooks Accountant's Copy is a better solution for training and review than is QuickBooks Remote Access.
a. True. b. False.
3. True/False? QuickBooks Learning Center charges users \$200 per year.
a. True. b. False.

Section XII. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 25.)

- a. True is incorrect. QuickBooks ranks higher than third among usage in the world.
- b. **False is correct.** QuickBooks is the most widely used accounting software system in the world.

Review Question 2. (Please see Page 27.)

- a. True is incorrect. The author believes that using Remote Access is a better solution than using the QuickBooks Accountant's Copy method.
- b. **False is correct.** The reasons the author prefers Remote Access are: (1) the CPA avoids the need to have the client's edition of QuickBooks running; (2) the CPA and client do not have to send the Accountant's Copy files back and forth; (3) Remote Access provides full access to the client's data in real time; and (4), Remote Access makes it easier for the CPA to be involved with the client's books only at year-end.

Review Question 3. (Please see Page 28.)

- a. True is incorrect. There is no charge to use QuickBooks Learning Center.
- b. **False is correct.** The Learning Center has many resources including 60 educational videos (each running just under five minutes), downloadable guides containing hundreds of pages of helpful information. To find it online, just Google "QuickBooks Learning Center."

===== End of Section XII.

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