**"A government that robs Peter to pay Paul
can always depend on the support of Paul."
...George Bernard Shaw**

Supplementary Study Guide to Accompany the Quarterly CPE Exam on Topics Addressed in the *Journal of Accountancy* First Quarter (January – March), 2016

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

Purpose:
To provide an interactive learning experience by listing Learning Objectives and Review Questions with Suggested Answers and Explanations.

OUTLINE: The section numbers of Study Guide correspond to section numbers of the Final Exam. The page numbers below refer to the first page of each article in the printed version of the ***JoA***.

The Learning Objectives are stated in each of the following sections.

Section I. Bookkeeping or Preparation? That Is the Question (Page 34 of January *JoA*)

Section II Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below,* and view the following YouTube presentation on SSARS 21: https://www.youtube.com/watch?v=tD6jyz8tXVE

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 5.

Section I Learning Objectives:
1. To learn when SSARS No. 21 applies to an engagement involving bookkeeping services.
2. To learn the requirements of SSARS No. 21 as it relates to the preparation of financial statements.

Section I Review Questions: (May relate to YouTube video linked above.)
1. Which section of SSARS No. 21 require(s) <u>independence</u>?
   a. Section 70.
   b. Section 80.
   c. Both a and b.
   d. Neither a nor b.

2. Which section of SSARS No. 21 require(s) an engagement letter?
   a. Section 70.
   b. Section 80.
   c. Both a and b.
   d. Neither a nor b.

3. Is an accountant subject to SSARS No. 21 if he or she only has a bookkeeping client and merely prints the client's financial statements?
   a. Yes.
   b. No.

4. If an accountant has an income tax client whose return requires a financial statement, would this service be subject to SSARS No. 21?
   a. Yes.
   b. No.

5. Under SSARS No. 21, the engagement letter must be signed by:
   a. The accountant.
   b. The client.
   c. Both the accountant and the client.
   d. Neither the accountant nor the client.

Solutions and Suggested Responses to Review Questions appear on next page.

Section I Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see the YouTube video linked in the assignment above.)
a. Incorrect. Section 70 does not require that the accountant be independent of the client.
b. C**orrect.** Section 80 requires that the accountant be independent of the client.
c. Incorrect. Section 80 requires independence but Section 70 does not.
d. Incorrect. Section 70 does not require independence but Section 80 does.

Review Question 2. (Please see the YouTube video linked in the assignment above.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. **Correct.** Both Section 70 as well as Section 80 require an engagement letter.
d. Incorrect. Both Section 70 as well as Section 80 require an engagement letter.

Review Question 3. (Please see the YouTube video linked in the assignment above.)
a. Incorrect. Merely printing financial statements generated for a bookkeeping client is not subject to SSARS No. 21.
b. C**orrect.** SSARS No. 21 would apply if the accountant actually prepares the financial statements.

Review Question 4. (Please see the YouTube video linked in the assignment above.)
a. Incorrect. Merely providing financial statements that are required with a tax return is not subject to SSARS No. 21.
b. C**orrect.** SSARS No. 21 would apply if the accountant actually prepares the financial statements.

Review Question 5. (Please see the YouTube video linked in the assignment above.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. **Correct.** Under SSARS No. 21, the engagement letter must be signed by both the accountant and the client.
d. Incorrect. Under SSARS No. 21, the engagement letter must be signed by both the accountant and the client.

==End of Section II.

Section II. How to Avoid the 10% Additional Tax on Early Retirement Distributions (Page 46)

Section II Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 6 through 10.

Section II Learning Objectives:
1. To learn when the Sec. 72(t) 10% tax is imposed on distributions from qualified plans and IRAs.
2. To learn about ways to avoid the 10% tax on early distributions.

Section II Review Questions:
1. The minimum age to receive retirement plan distributions and no be subject to the 10% additional tax is *generally:*
   a. 50. b. 55 ½. c. 59 ½. d. 64 ½. e. 65.

2. The "substantially equal periodic payments" exception is available to:
   a. Any qualified plan participant.
   b. Any IRA holder.
   c. Both a and b.
   d. Neither a nor b.

3. The "medical expense" exception is available to:
   a. Any qualified plan participant.
   b. Any IRA holder.
   c. Both a and b.
   d. Neither a nor b.

4. The "early retirement" exception is available to:
   a. Any qualified plan participant.
   b. Any IRA holder.
   c. Both a and b.
   d. Neither a nor b.

5. The "first-time homebuyer" exception is available to:
   a. Any qualified plan participant.
   b. Any IRA holder.
   c. Both a and b.
   d. Neither a nor b.

Solutions and Suggested Responses to Review Questions appear on next page.

Section II Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 46 of January *JoA*.)
a. Incorrect. The minimum age to always avoid the Sec. 72(t) 10% penalty is more than 50.
b. Incorrect. The minimum age to always avoid the Sec. 72(t) 10% penalty is more than 55 ½.
c. **Correct.** The minimum age to always avoid the Sec. 72(t) 10% penalty is 59 ½.
d. Incorrect. The minimum age to always avoid the Sec. 72(t) 10% penalty is less than 64 ½.
e. Incorrect. The minimum age to always avoid the Sec. 72(t) 10% penalty is less than 65.

Review Question 2. (Please see page 49 of January *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. **Correct.** The "substantially equal periodic payments" exception is available to both qualified plan participants as well as to any IRA holder.
d. Incorrect. The "substantially equal periodic payments" exception is available to both qualified plan participants as well as to any IRA holder.

Review Question 3. (Please see page 49 of January *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. **Correct.** The "medical expense" exception is available to both qualified plan participants as well as to any IRA holder.
d. Incorrect. The "medical expense" exception is available to both qualified plan participants as well as to any IRA holder.

Review Question 4. (Please see page 49 of January *JoA*.)
a. **Correct.** The "early retirement" exception is available only to qualified plans such as 401(k) or 403(b) plans.
b. Incorrect. The "early retirement" exception is not available to IRA holders.
c. Incorrect. The "early retirement" exception is available only to qualified plans such as 401(k) or 403(b) plans but not to IRA holders.
d. Incorrect. The "early retirement" exception is available only to qualified plans such as 401(k) or 403(b) plans but not to IRA holders.

Review Question 5. (Please see page 52 of January *JoA*.)
a. Incorrect. The "first time homebuyer" exception is not available to qualified plan participants.
b. **Correct.** The "first time homebuyer" exception is only available to IRA holders.
c. Incorrect. The "first time homebuyer" exception is only available to IRA holders and not to participants of qualified plans.
d. Incorrect. The "first time homebuyer" exception is only available to IRA holders and not to participants of qualified plans.

=======================================End of Section III.

Section III. From *The Tax Adviser:* Resolving IRS Disputes through Audit Reconsideration (P. 54)
Tax Practice Corner: A Day Late, A Dollar Short (Page 56), and
Tax Matters: Congress Changes Partnership Audit and Adjustment Rules (Page 58)

Section III Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 11 through 15.

Section III Learning Objectives:
1. To learn about the goals, process and requirements of audit reconsideration.
2. To learn about a potential inequity of equitable relief under Sec. 6015(f).
3. To learn about a recent Congressional change in partnership audit and adjustment rules.

Section III Review Questions:

1. A taxpayer may request audit reconsideration when:
   a. The taxpayer feels that he or she has not been treated fairly.
   b. The taxpayer has not filed a tax return and the IRS filed a return for them through the substitute for return process under Sec. 6020 (b).
   c. Either a or b.
   d. Neither a nor b.

2. Goals of the audit reconsideration process include ensuring that:
   a. Cases are handled in a consistent manner.
   b. The amount of the assessed tax is correct.
   c. Procedures support the abatement of assessments in appropriate situations.
   d. A, b and c.
   e. None of the above.

3. Generally, spouses who file a joint tax return are jointly and severally liable for the ________ on the return.
   a. Tax
   b. Penalties
   c. Interest
   d. A, b and c
   e. A and b but not c

4. Can a spouse's claim for equitable relief be affected by the nonpayment of late filing penalties and interest?
   a. Yes.
   b. No.

5. The Bipartisan Budget Act of 2015 contained provisions that:
   a. Replace the current TEFRA partnership audit rules.
   b. Repeal the current special rules for electing large partnerships.
   c. Both a and b.
   d. Neither a nor b.

Section III Solutions and Suggested Responses to Review Questions appear on the next page.

Section III Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 54 of January *JoA*.)
a. Incorrect. Feeling that one has been treated unfairly is one justification for requesting audit reconsideration but not the only one.
b. Incorrect. Not filing a tax return, resulting in the IRS' filing a return for them is one justification for requesting audit reconsideration but not the only one.
c. **Correct.** Either of these instances is justification for requesting audit reconsideration.
d. Incorrect. Either of these instances is justification for requesting audit reconsideration.

Review Question 2. (Please see page 54 of January *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. Incorrect. This is part of but not the most complete answer.
d. **Correct.** The goals of the audit reconsideration process include all three (a, b and c).
e. Incorrect. The goals of the audit reconsideration process include all three (a, b and c).

Review Question 3. (Please see page 56 of January *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. Incorrect. This is part of but not the most complete answer.
d. **Correct.** Spouses who file a joint tax return are generally jointly and severally liable for all three (a, b and c).
e. Incorrect. Spouses who file a joint tax return are generally jointly and severally liable for all three (a, b and c).

Review Question 4. (Please see page 56 of January *JoA*.)
a. **Correct.** If a return is filed late and it is not accompanied by payment of the late filing penalty, the spouse's claim for equitable relief may be affected.
b. Incorrect. A spouse's claim for equitable relief may be affected by the nonpayment of a late filing penalty.

Review Question 5. (Please see page 58 of January *JoA*.)
a. Incorrect. This is part of the correct answer but not the best answer.
b. Incorrect. This is part of the correct answer but not the best answer.
c. **Correct.** The Bipartisan Budget Act of 2015 replaces the current TEFRA partnership audit rules with new rules as well as repealing the current special rules for electing large partnerships.
d. Incorrect. The Bipartisan Budget Act of 2015 replaces the current TEFRA partnership audit rules with new rules as well as repealing the current special rules for electing large partnerships.

---End of Section III.

Section IV. Profit Shifting: Effectively Connected Income and Financial Statement Risks (Page 48 of February *JoA***)**

Section IV Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 16 through 20.

Section IV Learning Objectives:
1. To learn about how and why the IRS may tax effectively connected income (ECI) of foreign corporations.
2. To learn the steps that management of multinational corporations can take in risk assessment and abatement of ECI.
3. To learn how to recognize that a company or client has an ECI problem.

Section IV Review Questions:

1. Which of the following would normally be U.S. source income?
   a. Income that is derived from assets used in the conduct of the U.S. trade or business.
   b. Income earned by a U.S. trade or business whose activities are a major factor in the generation of the income.
   c. Income from foreign sources activities conducted and managed away from the U.S.
   d. A, b or c.
   e. A or b but not c.

2. Companies being scrutinized for underpayment of taxes on ECI include:
   a. Companies that have been inverted into foreign ownership.
   b. Foreign-based multinational corporations that own a business actively conducted in and managed from the United States.
   c. U. S.-based multinational corporations.
   d. A, b and c.
   e. A and b but c.

3. Would the ECI approach potentially apply to a multinational corporation that manages one business line within the U.S. but records significant profits in low-taxed group members' countries?
   a. Yes.
   b. No.

4. The ECI risk extends to:
   a. Income tax issues.
   b. Cash flow issues.
   c. Compliance with banking and loan agreements.
   d. Foreign exchange and currency issues.
   e. All of the above.

5. Would the risks associated with the use of the ECI approach remain if the United States were to enact international tax reform?
   a. Yes.
   b. No.

Section IV Solutions and Suggested Responses to Review Questions appear on next page.

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 49 of February *JoA*.)
a. Incorrect. While this income would be U.S. source income, it is only one of two among the options.
b. Incorrect. While this income would be U.S. source income, it is only one of two among the options.
c. Incorrect. This income would *not* be U.S. source income because it is from activities both conducted and managed away from the United States.
d. Incorrect. A and b refer both refer to U.S. source income but c does not.
e. **Correct.** Income that is either derived from assets used in the conduct of the U.S. trade or business or from a U.S. trade or business whose activities are a major factor in the realization of the income but does not include income from foreign activities conducted and managed away from the United States.

Review Question 2. (Please see page 49 of February *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. Incorrect. This is part of but not the most complete answer.
d. **Correct.** All of these groups of companies are being scrutinized for underpayment of taxes on ECI.
e. Incorrect. All of these groups of companies are being scrutinized for underpayment of taxes on ECI.

Review Question 3. (Please see page 50 of February *JoA*.)
a. **Correct.** The ECI would very likely apply to a multinational corporation that manages one business line within the U.S. but records significant profits in low-taxed group members' nations.
b. Incorrect. This would be the most likely target of enforcement.

Review Question 4. (Please see page 50 of February *JoA*.
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. Incorrect. This is part of but not the most complete answer.
d. Incorrect. This is part of but not the most complete answer.
e. **Correct.** The ECI risk extend to all four of these areas.

Review Question 5. (Please see pages 54-55 of February *JoA*.)
a. **Correct.** The risks associated with the use of the ECI approach would definitely remain if the U.S. were to enact international tax reform.
b. Incorrect. In the face of international tax reform, there would be no reduction in the amount of risks associated with the use of the ECI approach.

==================================== End of Section IV.

Section V. Congress Extends Expired Tax Provisions and Makes Some Permanent (Page 58) and **Filing Season Quick Guide Insert** (Following Page 60)

Section V Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.* Also, consider viewing this video about the Tax Extender legislation: https://www.youtube.com/watch?v=VYPyyaHlMBs
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 21 through 30.

Section V Learning Objectives:

1. To learn about which tax breaks were extended by two years, five years or permanently by annual year-end tax extenders legislation.
2. To learn highlights of tax rates, deductions and credits for the 2015 tax year using the *JoA*'s *Filing Season Quick Guide* (following page 60).

Section V Review Questions:

1. The December 18, 2015 legislation extended some of the expired tax provisions:
   a. Permanently.
   b. By five years.
   c. By two years.
   d. A, b or c.

2. The extenders legislation added a provision barring individuals from claiming the child tax credit for _____ years if they fraudulently claimed the credit.
   a. Two
   b. Four
   c. Six
   d. Eight
   e. Ten

3. The extenders legislation ___________ the Sec. 164(b)(5) deduction for state and local general sales taxes in lieu of a deduction for state and local income taxes.
   a. Permanently extended
   b. Extended for two years
   c. Extended for five years
   d. Extended for ten years

4. The extenders legislation ________ Sec. 408(d)(8) dealing with qualified charitable distributions from IRAs.
   a. Permanently extended
   b. Extended for two years
   c. Extended for five years
   d. Extended for ten years

5. The extenders legislation _____________ Sec. 1367(a)(2) allows S corporation shareholders to adjust their basis in the stock when the S corporation makes charitable contributions of property.
   a. Permanently extended
   b. Extended for two years
   c. Extended for five years
   d. Extended for ten years

6. The highest potential federal income tax rate is associated with:
   a. Gains from the sale of collectibles.
   b. Uncaptured Sec. 1250 gains.
   c. Long-term capital gains.
   d. Income subject to the kiddie tax.

7. Which of the following groups of taxpayers has the highest threshold for reaching the 39.6% marginal federal income tax rate?
   a. Single taxpayers.
   b. Married taxpayers filing jointly and surviving spouses.
   c. Married taxpayers filing separately.
   d. Heads of household.
   e. Trusts and estates.

8. Which of the following groups of taxpayers has the highest AMT exemption amount?
   a. Married filing jointly and surviving spouses.
   b. Singles and heads of household.
   c. Married filing separately.
   d. Estates and trusts.

9. For the 2015 tax year, married taxpayers with taxable income of $250,000 (including investment net income) and filing separate returns are subject to:
   a. An additional Medicare payroll tax.
   b. A net investment income tax.
   c. A marginal federal income tax rate of 39.6%.
   d. All of the above.
   e. A and b but not c.

10. The maximum 401(k) plan elective deferral for a taxpayer at age 52 is:
    a. $5,000.
    b. $5,500.
    c. $18,000.
    d. $23,500.
    e. $24,000.

Section V Solutions and Suggested Responses to Review Questions appear on next page.

Section V Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 58 of February *JoA*.)
a. Incorrect. This is part of but not the most complete answer.
b. Incorrect. This is part of but not the most complete answer.
c. Incorrect. This is part of but not the most complete answer.
d. **Correct.** Depending on the provision, some were extended permanently while others were extended for two years and others were extended for five years.

Review Question 2. (Please see page 58 of February *JoA*.)
a. Incorrect. The person fraudulently claiming the child tax credit is now barred from claiming the tax credit for more than two years.
b. Incorrect. The person fraudulently claiming the child tax credit is now barred from claiming the tax credit for more than four years.
c. Incorrect. The person fraudulently claiming the child tax credit is now barred from claiming the tax credit for more than six years.
d. Incorrect. The person fraudulently claiming the child tax credit is now barred from claiming the tax credit for more than eight years.
e. **Correct.** The person fraudulently claiming the child tax credit is now barred from claiming the tax credit for ten years.

Review Question 3. (Please see page 59 of February *JoA*.)
a. **Correct.** The Sec. 164(b)(5) deduction for state and local general sales tax in lieu of a deduction for state and local income taxes was extended permanently.
b. Incorrect. The Sec. 164(b)(5) deduction for state and local general sales tax in lieu of a deduction for state and local income taxes was extended more than two years.
c. Incorrect. The Sec. 164(b)(5) deduction for state and local general sales tax in lieu of a deduction for state and local income taxes was extended more than four years.
d. Incorrect. The Sec. 164(b)(5) deduction for state and local general sales tax in lieu of a deduction for state and local income taxes was extended more than ten years.

Review Question 4. (Please see page 59 of February *JoA*.)
a. **Correct.** The Sec. 408(d)(8) dealing with qualified charitable distributions from IRAs was extended permanently.
b. Incorrect. The Sec. 408(d)(8) dealing with qualified charitable distributions from IRAs was extended more than two years.
c. Incorrect. The Sec. 408(d)(8) dealing with qualified charitable distributions from IRAs was extended more than four years.
d. Incorrect. The Sec. 408(d)(8) dealing with qualified charitable distributions from IRAs was extended more than ten years.

Review Question 5. (Please see page 59 of February *JoA*.)
a. **Correct.** The Sec. 1367(a)(2) allowing S corporation shareholders to adjust their basis in their stock when the S corporation makes charitable contributions of property was extended permanently.
b. Incorrect. The Sec. 1367(a)(2) allowing S corporation shareholders to adjust their basis in their stock when the S corporation makes charitable contributions of property was extended by more than two years.
c. Incorrect. The Sec. 1367(a)(2) allowing S corporation shareholders to adjust their basis in their stock when the S corporation makes charitable contributions of property was extended by more than four years.
d. Incorrect. The Sec. 1367(a)(2) allowing S corporation shareholders to adjust their basis in their stock when the S corporation makes charitable contributions of property was extended by more than ten years.

Review Question 6. (Please see Tabular Insert after Page 60 of February *JoA*.)
a. Incorrect. The maximum federal income tax associated with collectibles gains is 28%.
b. Incorrect. The maximum federal income tax associated with uncaptured Section 1250 gains is 25%.
c. Incorrect. The maximum federal income tax associated with long-term capital gains is 20%.
d. C**orrect.** A child's unearned income over $2,000 is subject to the parent's highest income tax rate which can be as high as 39.6%.

Review Question 7. (Please see Tabular Insert after Page 60 of February *JoA*.)
a. Incorrect. The threshold for this group to reach the 39.6% federal income tax rate is $413,500.
b. C**orrect.** The threshold for this group to reach the 39.6% federal income tax rate is $464,850.
c. Incorrect. The threshold for this group to reach the 39.6% federal income tax rate is $232,425.
d. Incorrect. The threshold for this group to reach the 39.6% federal income tax rate is $425,000.
e. Incorrect. The threshold for this group to reach the 39.6% federal income tax rate is $12,300.

Review Question 8. (Please see Tabular Insert after Page 60 of February *JoA*.)
a. **Correct.** For this group of taxpayers, the AMT exemption amount is $83,400.
b. Incorrect. For this group of taxpayers, the AMT exemption amount is $53,600.
c. Incorrect. For this group of taxpayers, the AMT exemption amount is $41,700.
d. Incorrect. For this group of taxpayers, the AMT exemption amount is $23,800.

Review Question 9. (Please see Tabular Insert after Page 60 of February *JoA*.)
a. Incorrect. The 0.9% additional Medicare tax is a part of the answer but not the entire answer.
b. Incorrect. The new 3.8% net investment income tax is part of the answer but not the entire answer.
c. Incorrect. The new 39.6% marginal income tax rate is part of the answer but not the entire answer.
d. C**orrect.** The taxpayer in this example would be subject to all three additional taxes.
e. Incorrect. Not only is the taxpayer subject to any one of the three taxes, this taxpayer would be subject to all three in the 2015 tax year.

Review Question 10. (Please see Insert after page 60 of February *JoA*.)
a. Incorrect. 401(k) plans offer taxpayers the opportunity to put away substantial elective deferrals and much more than $5,000 per year.
b. Incorrect. 401(k) plans offer taxpayers the opportunity to put away substantial elective deferrals and much more than $5,500 per year. ($5,500 is the amount of the catchup limit for taxpayers over age 50.)
c. Incorrect. 401(k) plans offer taxpayers the opportunity to put away substantial elective deferrals; this would be the correct amount for a taxpayer not over age 50 who would qualify for the catchup.
d. Incorrect. This would be the correct answer if the catchup were only $5,500.
e. **Correct.** This is the correct amount and is the sum of the $18,000 annual limit for taxpayers not over age 50 plus the $6,000 catchup limit for 2015.

===================================== End of Section V.

Section VI. Three Tax Columns:

From *The Tax Adviser*: Tax Implications of the New Revenue Recognition Standard (P. 62), **Tax Practice Corner: Let It Snow (But to be Sure, Use an IRS-Approved PDS)** (P. 64), and **Tax Matters MyRAs Are Now Available Nationwide)** (Page 66)

Section VI Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 31 through 35.

Section VI Learning Objectives:
1. To learn to consider the tax implications of the new revenue recognition standard.
2. To learn about the risks of using a non-approved private delivery service to send IRS filings.
3. To learn the essential facts about MyRAs.

Section VI Review Questions:

1. If a company's tax method has been following financial accounting methods and the company changes its financial accounting methods, can it simply change its tax method to follow the new book method?
   a. Yes.
   b. No.

2. Which of the following IRS revenue procedures update(s) the procedural rules to change a method of accounting for federal income tax purposes?
   a. Rev. Proc. 2015-13.
   b. Rev. Proc. 2015-14.
   c. Both a and b.
   d. Neither a nor b.

3. Is FedEx First Overnight Service now an acceptable private delivery service?
   a. Yes.
   b. No.

4. MyRAs can be _______ accounts.
   a. Roth IRA
   b. Traditional IRA
   c. Either a or b
   d. Neither a nor b

5. Unmarried qualified taxpayers with ________ income only may be eligible for MyRAs.
   a. Earned
   b. Unearned
   c. Either a or b
   d. Neither a nor b

Section VI Solutions and Suggested Responses to Review Questions appear on the next page.

Section VI Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 62.)
a. Incorrect. The company cannot simply change its tax method to follow the new book method.
b. **Correct.** The company must evaluate whether applying the new tax rules would result in the same answer as the new book method, and if so, the company will have to file a Form 3115, *Application for Change in Accounting Method*, to change its tax method of accounting for an item.

Review Question 2. (Please see page 62.)
a. Incorrect. This is only one of the two revenue procedures that update the procedural rules to change a method of accounting for federal income tax purposes.
b. Incorrect. This is only one of the two revenue procedures that update the procedural rules to change a method of accounting for federal income tax purposes.
c. **Correct.** These two revenue procedures update the procedural rules to change a method of accounting for federal income tax purposes.
d. Incorrect. These two revenue procedures update the procedural rules to change a method of accounting for federal income tax purposes.

Review Question 3. (Please see page 65.)
a. **Correct**. While FedEx First Overnight Service was not an acceptable private delivery service at the time that Guralnik sent his notice (February 15, 2015), it has apparently been added to the list of acceptable private delivery services since that date.
b. Incorrect. While FedEx First Overnight Service has been added to the list of acceptable private delivery services subsequent to February 15, 2015, it was not an acceptable private delivery service at the time that Guralnik sent his notice.

Review Question 4. (Please see page 70.)
a. **Correct.** The MyRA account can only be a Roth IRA and not a traditional IRA.
b. Incorrect. The MyRA account can only be a Roth IRA and not a traditional IRA.
c. Incorrect. The MyRA account can only be a Roth IRA and not a traditional IRA.
d. Incorrect. The MyRA account can only be a Roth IRA and not a traditional IRA.

Review Question 5. (Please see page 70.)
a. **Correct.** Single taxpayers must have adjusted gross income of less than $131,000 and have earned income equal to the amount of their MyRA contribution.
b. Incorrect. Single taxpayers who only have unearned income are not eligible for any IRA account.
c. Incorrect. Single taxpayers can base their contributions to any IRA account on just their earned income. Unearned income cannot be considered.
d. Incorrect. Single taxpayers can base their contributions to any IRA account on just their earned income. Unearned income cannot be considered.

==================================== End of Section VI

Section VII. Two Articles Relating to Accounting and Financial Reporting
News Digest (Page 9 of March *JoA*) and **The Bilingual CPA: IFRS and U.S. GAAP** (Page 54 of March *JoA*)

Section VII Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 36 through 40.

Section VII Learning Objectives:
1. To learn about the new IFRS 16, *Leases*.
2. To learn about the FASB's Accounting Standards Update No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*
3. To learn about the need for CPAs who have a command of U.S. GAAP as well as IFRS.

Section VII Review Questions:

1. Both the IASB and the FASB have agreed to continue existing accounting requirements for:
   a. Lessees.
   b. Lessors.
   c. Both a and b.
   d. Neither a nor b.

2. Which of the following boards is (are) moving to a single model for all lease recognition for lessees?
   a.FASB.
   b. IASB.
   c. Both a and b.
   d. Neither a nor b..

3. Accounting Standards Update No. 2016-01 affects recognition and measurement of financial instruments for:
   a. Public and private companies.
   b. Not-for-profits.
   c. Employee benefit plans that hold financial assets or owe financial liabilities.
   d. A, b and c.
   e. A and b but not c.

4. In the *JoA* article, *The Bilingual CPA,"* bilingual refers to the use of:
   a. English and Spanish languages.
   b. U.S. GAAP and IFRS.

5. For small and medium-size businesses, commercial loan managers are currently:
   a. Barriers to The use of IFRS due to their lack of experience.
   b. Lobbying for more use of IFRS by financial statement issuers.

Section VII Solutions and Suggested Responses to Review Questions appear on next page.

Section VII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 9.)
a. Incorrect. For lessees, the IASB elected a single model for all lease recognition while the FAS elected a dual model.
b. **Correct.** Both boards agreed to “substantially” carry forward the existing accounting requirements for lessors.
c. Incorrect. Both boards agreed to not make substantial changes for lessors but not for lessees.
d. Incorrect. Both boards agreed to not make substantial changes for lessors but not for lessees.

Review Question 2: (Please page 9.)
a. Incorrect. For lessees, the IASB but not the FASB elected a single model for all lease recognition while the FAS elected a dual model.
b. **Correct.** For lessees, the IASB elected a single model for all lease recognition while the FAS elected a dual model.
c. Incorrect. For lessees, the IASB but not the FASB elected a single model for all lease recognition while the FAS elected a dual model.
d. Incorrect. For lessees, the IASB but not the FASB elected a single model for all lease recognition while the FAS elected a dual model.

Review Question 3: (Please see page 10.)
a. Incorrect. This is a part of but not the entire answer.
b. Incorrect. This is a part of but not the entire answer.
c. Incorrect. This is a part of but not the entire answer.
d. **Correct.** ASU Update No. 2016-01 affects recognition and measurement of financial instruments for public as well as private companies, not-for-profits, and employee benefit plans that have financial assets or owe financial liabilities.
e. Incorrect. ASU Update No. 2016-01 affects recognition and measurement of financial instruments for public as well as private companies, not-for-profits, and employee benefit plans that have financial assets or owe financial liabilities

Review Question 4: (Please see page 55.)
a. Incorrect. “Bilingual CPA” does not refer to a CPA who speaks more than one language but instead refers here to a CPA who has knowledge of both U.S. GAAP as well as IFRS.
b. **Correct**. “Bilingual CPA” refers here to a CPA who has knowledge of both U.S. GAAP as well as IFRS.

Review Question 5: (Please see page 58.)
a. **Correct.** Unfortunately, most commercial loan managers as well as their supervisors and loan committees have insufficient knowledge about IFRS to use it.
b. Incorrect. Due to lack of knowledge, commercial loan officers are not enthusiastic about having financial statements prepared using IFRS. It is not only The loan managers who are not familiar with IFRS but their loan committees and supervisors as well in most cases.

===================================== End of Section VII.

Section VIII. Two Articles Relating to Auditing
Checklist: Sound Audit Quality Control (Page 18 of March *Journal of Accountancy*) and
What's Your Fraud IQ? (Page 60) of March *Journal of Accountancy*)

Section VIII Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 45.

Section VIII Learning Objectives:
1. To learn certain techniques to help maintain an audit quality-control system.
2. To learn about sound practices for renewing and approval of travel and entertainment expense reimbursement programs.

Section VIII Review Questions:

1. Which of the following is <u>not</u> one of the "five key areas" of improvement enumerated by the director of the PCAOB's Division of Registration and Inspection?
   a. Checklists.
   b. Monitoring.
   c. Increasing the number of clients.
   d. Training.
   e. Coaching.

2. Examples of external resources that auditors should use when necessary include:
   a. Valuation firms.
   b. Required peer reviews.
   c. AICPA PCPS toolkits.
   d. All of the above.

3. Travel and entertainment expense reimbursement fraud accounts for ______ of all employee embezzlement schemes.
   a. 4%
   b. 9%
   c. 14%
   d. 19%
   e. 24%

4. The median cost of a travel and entertainment expense reimbursement scheme embezzlement incident is:
   a. $5,000.
   b. $10,000.
   c. $20,000.
   d. $30,000.
   e. $40,000.

5. Submitting sequentially numbered receipts is most often associated with:
   a. A multiple travel and entertainment expense reimbursement scheme.
   b. A fictitious travel and entertainment expense reimbursement scheme.
   c. An overstatement travel and entertainment expense reimbursement scheme.

Section VIII Solutions and Suggested Responses to Review Questions appear on the next page.

Section VIII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 18.)
a. Incorrect. This is one of the five key areas of improvement enumerated by the director.
b. Incorrect. This is one of the five key areas of improvement enumerated by the director.
c. **Correct**. Increasing the number of clients has nothing to do with improving audit quality; in fact it can lead to a compromise of quality unless the audit firm has the people and systems to support it.
d. Incorrect. This is one of the five key areas of improvement enumerated by the director.

Review Question 2: (Please see page 18.)
a. Incorrect. This is part of but not the entire answer.
b. Incorrect. This is part of but not the entire answer.
c. Incorrect. This is part of but not the entire answer.
d.**Correct.** Valuation firms, required peer reviews as well as AICPA PCPS toolkits are all examples of external resources that auditors should use when necessary.

Review Question 3: (Please see page 61.)
a. Incorrect. Travel and entertainment expense reimbursement schemes account for more than 4% of all employee embezzlement schemes.
b. Incorrect. Travel and entertainment expense reimbursement schemes account for more than 9% of all employee embezzlement schemes.
c. **Correct**. Travel and entertainment expense reimbursement schemes account for approximately 14% of all employee embezzlement schemes.
d. Incorrect. Travel and entertainment expense reimbursement schemes account for less than 19% of all employee embezzlement schemes.
e. Incorrect. Travel and entertainment expense reimbursement schemes account for less than 24% of all employee embezzlement schemes.

Review Question 4: (Please see page 61.)
a. Incorrect. The median cost of a travel and entertainment scheme embezzlement incident is more than $5,000.
b. Incorrect. The median cost of a travel and entertainment scheme embezzlement incident is more than $10,000.
c. Incorrect. The median cost of a travel and entertainment scheme embezzlement incident is more than $20,000.
d. **Correct.** The median cost of a travel and entertainment scheme embezzlement incident is approximately $30,000.
e. Incorrect. The median cost of a travel and entertainment scheme embezzlement incident is less than $40,000.

Review Question 5: (Please see page 63.)
a. Incorrect. Submitting sequentially numbered receipts is not most often associated with a multiple travel and entertainment reimbursement scheme.
b. **Correct.** Submitting sequentially numbered receipts is most often associated with a fictitious travel and entertainment reimbursement scheme.
c. Incorrect. Submitting sequentially numbered receipts is not most often associated with a overstatement of travel and entertainment reimbursement scheme.

==================================== End of Section VIII.

Section IX. One Tax Article and Two Tax Columns:
Form 1023-EZ: First Year Results Are In (Page 65),
Tax Practice Corner: Form 1099-C and COD Income: Key Timing Issues (P 71) and Tax Matters (P 73)

Section IX Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.*
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 46 through 50.

Section IX Learning Objectives:
1. To learn about Form 1023-EZ, who is eligible to use it, and The level of satisfaction with it.
2. To learn about Form 1099-C and COD income.
3. To learn about recent court decisions in *Dorrance* and *Redstone.*

Section IX Review Questions:

1. The IRS estimates that taxpayers will need an average of ____ hours to prepare Form 1023-EZ and its schedules compared to _____ hours to prepare Form 1023 and its schedules.
   a. 12...30
   b. 10...24
   c. 7 ½...19
   d. 5 ½...15 ½

2. Form 1023-EZ is ____ pages vs. ____ pages for Form 1023.
   a. 5...32
   b. 4 ½...30
   c. 3...28
   d. 2 ½...26

3. Does The issuance date of Form 1099-C always coincide with the year of actual forgiveness?
   a. Yes.
   b. No.

4. The process of demutualization involves:
   a. Exchanging stock for membership rights.
   b. Conversions of mutual companies, typically mutual thrifts and mutual insurance companies from the mutual form to stock form.
   c. Awarding qualified members the right to purchase stock at a zero price or at a specified price.
   d. A, b and c.
   e. A and b but not c.

5. In which of the following cases did the respective tax court rule that the transfer of stock was voluntary and nonbusiness related?
   a. *Redstone* (dealing with gifts made by Sumner Redstone).
   b. *Estate of Redstone* (dealing with gifts made by Edward Redstone).
   c. Both a and b.
   d. Neither a nor b.

Section IX Solutions and Suggested Responses to Review Questions appear on the next page.

Section IX Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 67.)
a. Incorrect. The estimated preparation times are lower than 12 hours and 30 hours, respectively.
b. Incorrect. The estimated preparation times are lower than 10 hours and 24 hours, respectively.
c. Incorrect. The estimated preparation times are lower than 7 1/2 hours and 19 hours, respectively.
d. **Correct.** The estimated preparation times are 5 1/2 hours and 15 1/2 hours, to complete Forms 1023 EZ and Form 1023, respectively.

Review Question 2: (Please see page 67.)
a. Incorrect. The estimated times to complete Form 1023-EZ and Form 1023 are less than 5 hours and 32 hours, respectively.
b. Incorrect. The estimated times to complete Form 1023-EZ and Form 1023 are less than 4 1/2 hours and 30 hours, respectively.
c. Incorrect. The estimated times to complete Form 1023-EZ and Form 1023 are less than 3 hours and 28 hours, respectively.
d. **Correct.** The estimated times to complete Form 1023-EZ and Form 1023 are only 2 1/2 hours and 26 hours, respectively

Review Question 3: (Please see pages 71.)
a. Incorrect. The timing of any actual forgiveness does not necessarily coincide with the issuance date of the Form 1099-C.
b. **Correct**. The actual forgiveness sometimes occurs in a year other than the year that the Form 1099-C is issued.

Review Question 4: (Please see page 73.)
a. Incorrect. This is part of but not the entire answer.
b. Incorrect. This is part of but not the entire answer.
c. Incorrect. This is part of but not the entire answer.
d. **Correct.** The process of demutualization involves awarding members of a formerly mutual organization shares of the successor corporation organized to carry on the business. Examples include Prudential Insurance and New Haven Savings Bank. Prudential awarded shares to its policyholders at a price of zero while New Haven Savings Bank gave its savers the opportunity to buy newly-issued shares at $10 when the proforma book value per share was approximately $16.
e. Incorrect. All three are part of the demutualization conversion process.

Review Question 5: (Please see page 74.)
a. **Correct.** The 1972 transfer of Sumner Redstone's stock to his childrens' trusts was voluntary and non-business-related.
b. Incorrect. The transfer of Edward Redstone's stock to his childrens' trusts was neither voluntary nor non-business-related.
c. Incorrect. The 1972 transfer of Sumner Redstone's stock to his childrens' trusts was voluntary and non-business-related but Edward Redstone's transfer was not.
d. Incorrect. The 1972 transfer of Sumner Redstone's stock to his childrens' trusts was voluntary and non-business-related but Edward Redstone's transfer was not.

End of section IX

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