“The stock market is never obvious. It is designed to fool most of the people most of the time.”
...Jesse Livermore

Supplementary Study Guide to Accompany the Quarterly CPE Exam on Topics Addressed in the *Journal of Accountancy* Second Quarter (April – June), 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. Section I. Two Accounting / Financial Reporting Articles:
Bringing Leases into View (Page 22 of April *JoA*)
Beware of Disappearing Revenues in an Acquisition (Page 28 of April *JoA*)

Section I Assignment:
1. Study the articles (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 1 through 10.

Section I Learning Objectives:
1. To learn about new accounting and disclosure requirements for leases.
2. To learn about operational changes lessees need to make as a result of the new accounting and disclosure standards.
3. To learn how purchase accounting can result in the disappearance of deferred revenue when one company purchases another.

Section I Review Questions:
1. Why did the FASB add a lease project to its agenda?
   a. Most lease assets and lease liabilities are off-balance sheet.
   b. Lack of transparency about residual values.
   c. Insufficient disclosures about operating leases.
   d. All of the above are reasons the Board added the lease project to its agenda.

2. Which of the following companies will be more likely to be affected by the new lease reporting requirements?
   a. Companies with many capital leases.
   b. Companies with many operating leases.

3. Current reporting standards require that ________ leases be reported on the balance sheet.
   a. Capital
   b. Operating
   c. Both a and b
   d. Neither a nor b

4. For public companies, the effective date for the FASB's new lease standard is for fiscal years beginning after December 15, _______
   a. 2017.
   b. 2018.
   c. 2019.
   d. 2020.
   e. 2021.

5. For non-public companies, the effective date for the FASB's new lease standard is for fiscal years beginning after December 15, _______
   a. 2017.
   b. 2018.
   c. 2019.
   d. 2020.
   e. 2021.

6. The IASB permits a(n) _______ approach for transition.
   a. Modified retrospective
   b. Full retrospective
   c. Both a and b
   d. Neither a nor b

7. The FASB's new standard _______ lessees to account for most existing capital leases as finance leases.
   a. Will require
   b. Will not require

8. Under the FASB's new standard, most operating leases _____ remain operating leases for income statement recognition.
   a. Will
   b. Will not

9. Which of the following is likely characteristic of firms associated with disappearing revenues if acquired by other companies?
   a. Companies that receive upfront payments from customers for services to be rendered in the future.
   b. Companies that have low costs associated with incremental services to additional customers or subscribers.
   c. Both a and b.
   d. Neither a nor b.

10. When one company purchases another company, purchase accounting rules require that the acquiring company:
   a. Record acquired assets at the acquired company's book values.
   b. Revalue acquired assets to relative fair market values.

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 page 24 of April *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 FASB's decision to add a lease project to its agenda was based on all three of these factors.

Review Question 2. (Please see page 24 of April *JoA*.)
a. Incorrect. These companies are as likely to be as affected because reporting entities already have to report capital leases on both their income statements as well as balance sheets.
b. C**orrect.** These companies will be most affected because they are not currently required to report operating leases on their balance sheets.

Review Question 3. (Please see page 24 of April *JoA*.)
a. **Correct.** Current reporting standards require that capital leases be reported on the balance sheet.
b. Incorrect. Current reporting standards do not require that operating leases be reported on the balance sheet.
c. Current reporting standards require that capital leases – but not operating leases - be reported on the balance sheet.
d. Current reporting standards require that capital leases – but not operating leases - be reported on the balance sheet.

Review Question 4. (Please see page 24 of April *JoA*.)
a. Incorrect. The effective date is later than for years beginning after December 15, 2017.
b. C**orrect.** The effective date is for years beginning after December 15, 2018.
c. Incorrect. The effective date is for years beginning after December 15, 2018.
d. Incorrect. The effective date is for years beginning after December 15, 2018.

Review Question 5. (Please see page 24 of April *JoA*.)
a. Incorrect. The effective date is later than for years beginning after December 15, 2017.
b. Incorrect. The effective date is later than for years beginning after December 15, 2018.
c. **Correct.** The effective date is for years beginning after December 15, 2019.
d. Incorrect. The effective date is for years beginning after December 15, 2019.

Review Question 6. (Please see page 26 of April *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 IASB permits both the modified retrospective approach as well as the full retrospective approach.
d. Incorrect. The IASB permits both the modified retrospective approach as well as the full retrospective approach.

Review Question 7. (Please see page 24 of April *JoA*.)
a. **Correct.** Existing capital leases will have to be accounted for as finance leases.
b. Incorrect. The new standard requires that most <u>existing</u> capital leases be accounted for as finance leases.

Review Question 8. (Please see page 24 of April *JoA*.)
a. **Correct.** Most operating leases will remain operating leases for income statement recognition purposes under the FASB's new standard.
b. Incorrect. Under the FASB's new standard, most operating leases will remain operating leases for income statement recognition, with recognition of single lease expense generally on a straight-line basis over the remaining lease term.

Review Question 9. (Please see page 29 of April *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.** Companies that receive upfront payments for services to be provided in the future are associated with deferred revenues, and relatively low marginal incremental costs of providing such services result in strong profitability for the services.
d.Incorrect. Companies that are most susceptible to disappearing revenue upon begin acquired generally have relatively large deferred revenues.

Review Question 10. (Please see page 24 of April *JoA*.)
a. Incorrect. Purchase accounting rules do not permit the acquiring company to use the acquired company's basis.
b. C**orrect.** Purchase accounting rules require that the assets of acquired entities be revalued to their market values upon change of control of the acquired company.

=======================================End of Section I.

Section II. FBAR (*Report of Foreign Bank and Financial Accounts*) Compliance (Page 64)

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 11 through 15.

Section II Learning Objectives:
1. To learn about the requirements for filing FBAR (*Report of Foreign Bank and Financial Accounts*).
2. To learn about about the penalties for not complying with FBAR.

Section II Review Questions:
1. Which type(s) of foreign financial accounts can be affected by FBAR?
   a. Bank accounts.
   b. Brokerage accounts.
   c. Mutual funds.
   d. Trusts.
   e. All of the above.

2. ___________ created or organized under the laws of the United States are included in the term "U. S. person" under the scope of FBAR requirements.
   a. Corporations.
   b. Partnerships.
   c. Limited liability companies.
   d. Trusts and estates.
   e. All of the above.

3. Persons who fail to file a complete and correct required FBAR may be subject to _____ penalties.
   a. Criminal
   b. Civil
   c. Both a and b
   d. Neither a nor b

4. Negligence penalties may be imposed for _______ FBAR violations.
   a. Willful
   b. Nonwillful
   c. Either a or b
   d. Neither a nor b

5. For reporting purposes, a U. S. person must report the _______ of financial assets maintained in financial institutions located in a foreign country.
   a. Value reported on the end-of-year account statement
   b. Highest value appearing on any quarterly account statement

6. A U. S. person who holds a foreign financial account may be required to report the holding if the account ________ producing income.
   a. Is
   b. Is not
   c. Regardless of whether or not it is

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 65 of April *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.** All of the accounts listed above are examples of accounts that are subject to FBAR if held by U. S. citizens or entities in foreign countries.

Review Question 2. (Please see page 65 of April *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.** All of the types of entities listed above are examples of entities that are subject to FBAR if they hold foreign financial accounts.

Review Question 3. (Please see page 66 of April *JoA*.)
a. Incorrect. Failing to file a complete and correct FBAR will not by itself result in criminal penalties.
b. **Correct.** Failing to file a complete and correct FBAR can result in civil penalties for negligence. The purpose of imposing the penalties is to encourage filing compliance.
c. Incorrect. Failure to file a complete and correct FBAR may result in civil but not by itself criminal penalties.
d. Incorrect. Failure to file a complete and correct FBAR may result in civil but not by itself criminal penalties.

Review Question 4. (Please see page 67 of April *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.** Negligence penalties may be imposed for either willful or nonwillful violations of FBAR.
d. Incorrect. Negligence penalties may be imposed for either willful or nonwillful violations of FBAR.

Review Question 5. (Please see page 68 of April *JoA*.)
a. Incorrect. The end-of-year value would not be the amount reported unless it were the highest balance shown on any quarterly statement.
b. **Correct.** U.S. persons must report the highest value shown on any of the quarterly account statements of the year.

Review Question 6. (Please see page 68 of April *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.** A U.S. person who holds a foreign financial account may be required to report the holding whether or not it is producing income or not.

==End of Section II.

Section III. From *The Tax Adviser:* The Importance of Appraisals When Gifting Art (P. 74)
Tax Practice Corner: $50,000 in Tax Debt Can Ground Travelers (Page 76), and
Tax Matters (Page 78)

Section III Assignment:
1. Study the articles (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 15 through 20.

Section III Learning Objectives:
1. To learn about why it is essential to get an appraisal when donating art.
2. To learn about how the FAST Act can result in the revocation of the passport of a "seriously delinquent taxpayer."
3. To learn about certain recent court decisions and IRS pronouncements.

Section III Review Questions:

1. A taxpayer may request a Statement of Values from the IRS for donations of art appraised at ____________ or more.
   a. $10,000
   b. $20,000
   c. $30,000
   d. $40,000
   e. $50,000

2. The threshold for qualifying as a delinquent taxpayer for the passport revocation program is ____________ (indexed for inflation) assessed taxes, interest and penalties.
   a. $10,000
   b. $25,000
   c. $50,000
   d. $75,000
   e. $100,000

3. Which of the following must contain information about Sec. 7345?
   a. The notice of the filing of a tax lien.
   b. The notice of the IRS's intent to levy.
   c. Both a and b.
   d. Neither a nor b.

4. In *Hunsaker*, a bankruptcy court ruled that sovereign immunity ______ a protection against attempting to collect debts from a bankrupt taxpayer.
   a. Is
   b. Is <u>not</u>

5. The IRS recently ______ the tangible property *de minimis* safe-harbor amount.
   a. Raised
   b. Lowered

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 74 of April *JoA*.)
a. Incorrect. The minimum value required to request a Statement of Value is greater than $10,000.
b. Incorrect. The minimum value required to request a Statement of Value is greater than $20,000.
c. Incorrect. The minimum value required to request a Statement of Value is greater than $30,000.
d. Incorrect. The minimum value required to request a Statement of Value is greater than $40,000.
e. **Correct.** The minimum appraisal value required to request a Statement of Value is $50,000. Rev. Proc. 96-15 states the requirements and steps for obtaining the Statement of Value.

Review Question 2. (Please see page 77 of April *JoA*.)
a. Incorrect. The threshold for qualifying as a delinquent taxpayer for the passport revocation program is higher than $10,000 (indexed) of assessed taxes, interest and penalties.
b. Incorrect. The threshold for qualifying as a delinquent taxpayer for the passport revocation program is higher than $20,000 (indexed) of assessed taxes, interest and penalties.
c. **Correct.** The threshold for qualifying as a delinquent taxpayer for the passport revocation program is $50,000 (indexed) of assessed taxes, interest and penalties.
d. Incorrect. The threshold for qualifying as a delinquent taxpayer for the passport revocation program is less than $75,000 (indexed) of assessed taxes, interest and penalties.
e. Incorrect. The threshold for qualifying as a delinquent taxpayer for the passport revocation program is less than $100,000 (indexed) of assessed taxes, interest and penalties

Review Question 3. (Please see page 76 of April *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.** Both the notice of the filing of a tax lien as well as the notice of the IRS's intent to levy must contain information regarding Sec. 7345.
d. Incorrect. Both the notice of the filing of a tax lien as well as the notice of the IRS's intent to levy must contain information regarding Sec. 7345.

Review Question 4. (Please see page 78 of April *JoA*.)
a. Incorrect. Nobody, not even the IRS, can hound debtors who have been afforded protections under the bankruptcy laws.
b. **Correct.** The bankruptcy court ruled that even the powerful IRS is subject to protections afforded debtors declared bankrupt.

Review Question 5. (Please see page 81 of April *JoA*.)
a. **Correct.** Years of lobbying resulted in the IRS's raising the *de minimis* safe-harbor amount to $2,500 for tangible property.
b. Incorrect. The threshold amount was raised from just $500 to $2,500 which applies for tax years beginning on or after January 1, 2016.

---End of Section III.

Section IV. Three articles dealing with current developments in Accounting/Auditing:
News Digest (Page 9); **Walking the Talk of Quality Control** (Page 16); and
How Audit Committees Can help Deter Fraud (Page 20 of May *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 21 through 25.

Section IV Learning Objectives:
1. To learn about a new reporting standard issued by the FASB that eliminates effective dates for the four private company accounting alternatives.
2. To learn about certain quality-control metrics that can help prevent audit errors and reduce the risk of professional liability claims.
3. To learn about ways that audit committees can help deter fraud.

Section IV Review Questions:

1. The four private company alternatives have effective dates of:
   a. June 30, 2016.
   b. December 31, 2016.
   c. June 30, 2017.
   d. December 31, 2017.
   e. None. They were all made effective immediately.

2. Do the new AICPA standards permit members to conduct a review in accordance with another set of review standards?
   a. Yes.
   b. No.

3. Within the scope of ASU No. 2016-04, prepaid stored-value products are financial ________.
   a. Assets
   b. Liabilities

4. Which of the following areas offer(s) opportunities for improving audit quality control?
   a. Specialization.
   b. Billing practices.
   c. Client relationships and documentation.
   d. All of the above.

5. Which of the following is (are) among the five most frequent frauds reported in PwC's global economic crime survey in 2016?
   a. Cybercrime.
   b. Accounting frauds.
   c. Procurement fraud.
   d. Asset misappropriation.
   e. All of the above.

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

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 9 of May *JoA*.)
a. Incorrect. The new amendments removed their effective dates and made them all effective immediately.
b. Incorrect. The new amendments removed their effective dates and made them all effective immediately.
c. Incorrect. The new amendments removed their effective dates and made them all effective immediately.
d. Incorrect. The new amendments removed their effective dates and made them all effective immediately.
e. Correct. The new amendments removed their effective dates and made them all effective immediately.

Review Question 2. (Please see page 12 of May *JoA*.)
a. **Correct.** The new AICPA standards do permit members to conduct a review in accordance with another set of review standards provided that the review is in accordance with both sets of standards in their entirety.
b. Incorrect. The new AICPA standards do permit members to conduct a review in accordance with another set of review standards provided that the review is in accordance with both sets of standards in their entirety.

Review Question 3. (Please see page 13 of May *JoA*.)
a. Incorrect. Prepaid stored-value products are in fact liabilities as their holders have a claim against the organization giving them the right to spend the value stored on the card. They are not assets.
b. **Correct.** Prepaid stored-value products are in fact liabilities as their holders have a claim against the organization giving them the right to spend the value stored on the card.

Review Question 4. (Please see page 16 of May *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 areas offer opportunities for improving quality control.

Review Question 5. (Please see page 20 of May *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.** Each of the four areas mentioned is among the five most frequent frauds reported in PwC's global economic crime survey in 2016. In addition to the four mentioned, the fifth area is bribery and corruption.

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

Section V. New Product or Different Presentation (Page 50 of May *JoA*)

Section V 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 26 through 30.

Section V Learning Objectives:

1. To learn about current requirements for claiming the Sec. 199 domestic production activities deduction.
2. To learn about the proposed IRS regulations for claiming the Sec. 199 domestic production activities deduction.

Section V Review Questions:

1. Which of the following activities may qualify for the Sec. 199 domestic production activities deduction?
   a. Goods manufactured in the United States.
   b. Agricultural products grown in the United States.
   c. Minerals or metals extracted in the United States.
   d. A, b and c.
   e. A and b but not c.

2. Companies that merely repackage items produced offshore ______ eligible for the Sec. 199 domestic production activities deduction.
   a. May be
   b. Are <u>not</u>

3. In __________, the court(s) rejected the IRS's arguments that the taxpayers did not engage in MPGE activities with respect to the claimed QPP.
   a. *Precision Dose, Inc.*
   b. *Dean.*
   c. Both a and b.
   d. Neither a nor b.

4. The IRS prevailed in:
   a. *Precision Dose, Inc.*
   b. *Dean.*
   c. Both a and b.
   d. Neither a nor b.

5. Do the statutory provisions of Sec. 199 define what constitutes MPGE?
   a. Yes.
   b. No.

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

Section V Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 51 of May *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 products may qualify for the Sec. 199 domestic production activities deduction.
e. Incorrect. All of these products may qualify for the Sec. 199 domestic production activities deduction.

Review Question 2. (Please see page 53 of May *JoA.*)
a. Incorrect. Imported products that are merely repackaged in the United States will not qualify for the Sec. 199 domestic production activities deduction.
b. C**orrect.** To qualify for the deduction, imported goods must be transformed in a unique manner and not merely be repackaged.

Review Question 3. (Please see page 57 of May *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 courts rejected the IRS's arguments in both cases.
d. Incorrect. The courts rejected the IRS's arguments in both cases.

Review Question 4. (Please see page 51 of May *JoA.*)
a. Incorrect. The IRS did not prevail in this case.
b. Incorrect. The IRS did not prevail in this case.
c. Incorrect. The IRS did not prevail in either case.
d. **Correct.** The IRS did not prevail in either case.

Review Question 5. (Please see page 52 of May *JoA.*)
a. Incorrect. The statutory provisions do not define what constitutes MPGE.
b. C**orrect.** The fact that the statutory provisions do not define what constitutes MPGE has resulted in confusion and a good bit of litigation.

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

Section VI. Two Tax Columns:
From *The Tax Adviser*: Bonus Depreciation Applies to New Class of Property (P. 62 of May *JoA*) and
Tax Matters (Page 66 of May *JoA*)

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 about bonus depreciation under the *Protecting Americans from Tax Hikes* (PATH) Act of 2015.
2. To learn about the *Foreign Investment in Real Property Tax Act* (FIRPTA).
3. To learn about how a provision of the *Trade Facilitation and Trade Enforcement Act of 2015* has increased the minimum failure-to-file penalty.

Section VI Review Questions:

1. Qualified improvement property as defined by PATH includes improvements made to the ______ of nonresidential property.
   a. Interior
   b. Exterior

2. To qualify as an above-the-line non-reimbursed employee expense deduction, the taxpayer _______ received earned income for his or her services.
   a. Is not required to have
   b. Must have

3. Qualified improvement property is a new class of ______ property.
   a. Residential
   b. nonresidential

4. Property eligible for bonus depreciation under the PATH Act must be:
   a. Original property.
   b. Placed in service in the applicable time frame.
   c. Qualified property under Sec. 168 (k) (2).
   d. A, b and c.
   e. A and b but not c.

5. The PATH Act allows farmers to claim _____ deduction through the 2017 tax year in place of bonus depreciation on certain trees, vines and plants (with certain conditions attached).
   a. 25%
   b. 50%
   c. 60%
   d. 75%

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 of May *JoA*.)
a. **Correct.** Under PATH, qualified improvement property only relates to interiors of buildings.
b. Incorrect. Exterior improvements do not qualify as qualified improvement property.

Review Question 2. (Please see page 68 of May *JoA*.)
a. Incorrect. Someone who does not receive earned income cannot qualify for an above-the-line non-reimbursed employee expense deduction.
b. **Correct.** The above-the-line employee non-reimbursed expense deduction requires earned income.

Review Question 3. (Please see page 62 of May *JoA*.)
a. Incorrect. Qualified improvement property does not include residential property.
b. **Correct.** Qualified improvement property does include nonresidential property.

Review Question 4. (Please see page 62 of May *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.** To be eligible for bonus depreciation under the PATH Act, property must meet all of these three requirements.
e. Incorrect. To be eligible for bonus depreciation under the PATH Act, property must meet all of these three requirements.

Review Question 5. (Please see page 62 of May *JoA*.)
a. Incorrect. The PATH allows farmers to claim a deduction greater than this for such plants.
b. **Correct.** The PATH allows farmers to claim a deduction of 50% for such plants.
c. Incorrect. The deduction is less than 60%.
d.Incorrect. The deduction is less than 75%.
di.

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

Section VII. The Psychology behind Good Judgment (Page 26 of June *JoA*)

Section VII Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below.* Also, please consider viewing the enlightening youtube video by Charlie Munger of Berkshire Hathaway on the subject of psychology, "The 24 standard causes of human reinforcement: **https://www.youtube.com/watch?v=pqzccfuglws**
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 some minefields that CPAs can unconsciously succumb to in reaching judgments in audits as well as in management.
2. To learn about some ways to eliminate bias in judgment and decision-making.
3. To learn about some techniques to improve judgment.

Section VII Review Questions:

1. Directional goals:
   a. Result in a bias toward justifying a desired conclusion.
   b. Are unconscious.
   c. Both a and b.
   d. Neither a nor b.

2. Random data often look like <u>clusters</u> instead of symmetrical distributions in ______ samples.
   a. Small
   b. Large
   c. Both a and b
   d. Neither a nor b

3. Academic research in _______ shows a good number of shortcomings in the human decision-making process that can negatively affect judgment in both audit quality and the soundness of tax positions taken by accountants.
   a. Psychology
   b. Accounting
   c. Both a and b
   d. Neither a nor b

4. The "halo effect" results in placing more weight on ______ impressions.
   a. First
   b. Last

5. "Ego depletion" results in better decision-making:
   a. Early in the morning.
   b. Later in the day.

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

Section VII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 27 of June *JoA*.)
a. Incorrect. This is part of but not the most complete answer. Aiva Kunda said it best: Directional goals are a form of motivated reasoning that cause people to evaluate information selectively and search for information that allows them to justify their conclusions.
b. Incorrect. This is part of but not the most complete answer. Decision makers are unlikely to be conscious of this kind of internal bias.
c. **Correct.** The unconscious characteristic of directional goals make them especially dangerous in a professional setting that demands that accountants remain objective.
d. Incorrect. Directional goals are just one of possible ways to lose ones objectivity.

Review Question 2: (Please page 27 of June *JoA*.)
a. **Correct.** Data in small data sets really aren't random due to insufficient sample size and therefore may appear in "clusters."
b. Incorrect. When the sample size is very large, there are enough data points to yield symmetrical distributions rather than cluster-like distributions.
c. Incorrect. Small samples often present cluster-like distributions; very large samples would generally not.
d. Incorrect. While very large samples would generally yield symmetrical distributions, very small samples can be expected to often present cluster-like distributions.

Review Question 3: (Please see page 27 of June *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.** Academic research in both psychology and accounting have spotlighted such shortcomings that can hurt accountants' decision-making ability.
d. Incorrect. Academic research in both psychology and accounting have spotlighted such shortcomings that can hurt accountants' decision-making ability.

Review Question 4: (Please page 28 of June *JoA*.)
a. **Correct.** The halo effect can cause otherwise rational people to let down their guard after being positively affected by first impressions and afterwards relaxing their skepticism.
b. Incorrect. The halo effect can cause otherwise rational people to let down their guard after being positively affected by first impressions and afterwards relaxing their skepticism.

Review Question 5: (Please page 29 of June *JoA*.)
a. **Correct.** Ego depletion reflects the fact that energy levels can wane as the work day progresses, and consequently ones decision-making ability may also decline later in the day.
b. Incorrect. Ego depletion reflects the fact that energy levels can wane as the work day progresses, and consequently ones decision-making ability may also decline later in the day.

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

Section VIII. Estate Basis Consistency and Reporting: What Practitioners Need to Know (Page 60 of June *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. Section 2004 of the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, P.L. 114-41, headed “Consistent Basis Reporting Between Estate and Person Acquiring Property from Decedent” included:
   a. A new consistency requirement of Section 1014(f).
   b. A new reporting requirement of Section 6035.
   c. Both a and b.
   d. Neither a nor b.

2. Is the intent of this legislation to keep people who acquire property from a decedent from claiming that the fair market value of an asset on the date of death was actually greater than the value used for estate tax purposes.
   a. Yes.
   b. No.

3. The new Sec. 1014 (f) requires that the basis of property acquired from a decedent be consistent with:
   a. Its appraisal for estate tax purposes.
   b. its adjusted basis at the date of death.
   c. Its valuation as shown on current county tax records.

4. Compared to 2.6 million deaths in 2013 (the most recent year for which statistics are available), how many estate returns filed in 2014 were taxable?
   a. 5,158.
   b. 10,316.
   c. 20.632.
   d. 41,264.

5. As of the date of publication, the basic estate exclusion for decedents dying in 2016 was:
   a. $1,362,500.
   b. $2,725,000.
   c. $5,450,000.
   d. $10,900.000.

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

Section VIII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 61of June *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 Transportation Act contained both estate basis consistency requirements as well as new reporting requirements.
d. Incorrect. Both of these requirements were included within the Transportation Act.

Review Question 2: (Please see page 78 of June *JoA*.)
a. **Correct.** The goal of this legislation was to increase tax revenue by preventing inheritors from claiming a market value greater than the property's value in the estate. This would increase the potential capital gain upon the sale of the property by the inheritor.
b. Incorrect. This measure was almost buried in the Transportation Act.

Review Question 3: (Please see page 62 of June *JoA*.)
a. **Correct.** The new Sec. 1014 (f) requires that the basis of property acquired from a decedent be consistent with its appraisal for estate tax purposes.
b. Incorrect. Adjusted basis at date of death would not be relevant here.
c. Incorrect. County tax valuation would not be relevant here.

Review Question 4: (Please see page 62 of June *JoA*.)
a. **Correct.** The exclusion is so large that there were only 11,931 estate tax returns filed in 2014 and only 5,158 were taxable.
b. Incorrect. The exclusion is so large that there were only 11,931 estate tax returns filed in 2014 and only 5,158 were taxable.
c. Incorrect. The exclusion is so large that there were only 11,931 estate tax returns filed in 2014 and only 5,158 were taxable.
d. Incorrect. The exclusion is so large that there were only 11,931 estate tax returns filed in 2014 and only 5,158 were taxable.

Review Question 5: (Please see page 64of June *JoA*.)
a. Incorrect. The exclusion is now larger than this.
b. Incorrect. The exclusion is now larger than this.
c. **Correct.** The exclusion is now $5,450,000 (at publication date) and will be adjusted for inflation.
d. Incorrect. The exclusion is smaller than this.

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

Section IX. Two Tax Columns:
Tax Practice Corner: Drafting Real Estate Leases with Taxes in Mind (Page 74) and
Tax Matters (Page 78)

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 the need for tax planning in drafting and negotiating real estate lease agreements.
2. To learn about the differences between deductible salaries and non-deductible shareholder dividends as illustrated in *Brinks Gilson & Lione.*
3. To learn about upper limits of the charitable donation qualified appraisal rules' exception under Sec. 170(f)(11)(A)(ii)(I).

Section IX Review Questions:

1. In *Stough*, the Tax Court ruled that the lessee's payment was:
   a. Reimbursement to the lessor for development and construction costs.
   b. Additional rental income.

2. In *Stough*, which of the following did the Tax Court rule more important in determining the true character of the taxpayers' payments?
   a. The intent of the parties.
   b. The contract as well as how the the lump-sum payment was reported on the taxpayers' original tax return.

3. Which of the following is (are) generally deductible?
   a. Employee compensation.
   b. Dividends.
   c. Both a and b.
   d. Neither a nor b.

4. The constant rental accrual method applies to disqualified ______ agreements.
   a. Leaseback
   b. Long-term
   c. Either a or b
   d. Neither a or b

5. Sec. 4973 imposes an excise tax of _____ for excess contributions to a Roth IRA.
   a. 3%
   b. 6%
   c. 12%
   d. 15%

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 74 of June *JoA*.)
a. Incorrect. Although the taxpayers argued that the payments were reimbursement to the lessor for development and construction costs, the court held that the payment were additional rental income.
b. **Correct**. Although the taxpayers argued that the payments were reimbursement to the lessor for development and construction costs, the court held that the payment were additional rental income.

Review Question 2: (Please see page 75 of June *JoA*.)
a. Incorrect. Although the taxpayers argued that the intent of the parties should determine whether the payments whether the payments were a substitute for rent, the court ruled that the terms of the contract were clear.
b. **Correct**. Because the terms of the lease agreement were clear, the Court ruled that the payments constituted rent and that the court did not need to inquire into the parties' subjective intent.

Review Question 3: (Please see page 78 of June *JoA*.)
a. **Correct.** Employee compensation is a deductible expense.
b. Incorrect. Dividends are distributions to owners and not deductible.
c. Incorrect. Employee compensation is deductible but dividends are not.
d. Incorrect. Dividends are not deductible but employee compensation is deductible.

Review Question 4: (Please see page 76 of June *JoA*.)
a. Incorrect. The constant rental accrual method applies to disqualified leaseback or long-term agreements.
b. Incorrect. The constant rental accrual method applies to disqualified leaseback or long-term agreements.
c. **Correct.** The constant rental accrual method applies to disqualified leaseback or long-term agreements.
d. Incorrect. The constant rental accrual method applies to disqualified leaseback or long-term agreements.

Review Question 5: (Please see page 83 of June *JoA*.)
a. Incorrect. The excise tax on excessive Roth IRA contributions is greater than 3%.
b. **Correct**. The excise tax on excessive Roth IRA contributions is 6%.
c. Incorrect. The excise tax on excessive Roth IRA contributions is less than 12%.
d. Incorrect. The excise tax on excessive Roth IRA contributions is less than 15%.

End of section IX

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