

It is remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." -- Charlie Munger

**Supplementary Study Guide to Accompany the
Quarterly CPE Exam on
Topics Addressed in the *Journal of Accountancy*
Fourth Quarter (October – December), 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 the 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*.

Sections I – III Relate to the *Journal of Accountancy* of October 2016:

Section I. A 10-K for the Taxpayer (Page 46)

Section II. Three Tax Columns:

From *The Tax Adviser*: Tax Issues for Professional Gamblers (Page 62)
Tax Practice Corner: Keeping Clients' Tax Data Secure (Page 64), and
Tax Matters (Page 66)

Section III. Year-End Tax Planning and What's New for 2016 – Sponsored Report (Page 75)

Sections IV – VII Relate to the *Journal of Accountancy* of November 2016:

Section IV. 11 Tips for Success with Single Audits (Page 40)

Section V. Boost the Bottom Line with Accounts Payable Best Practices (Page 50)

Section VI. Captive Insurance for the Middle Market (Page 58)

Section VII. Three Tax Columns:

From *The Tax Adviser*: FBAR Preparation and Ethical Risks (Page 74)
Tax Practice Corner: Tax Help for Working Parents (Page 76), and Tax Matters (Page 78)

Sections VIII – X Relate to the *Journal of Accountancy* of December 2016

Section VIII. What's Your Fraud IQ? (Page 38)

Section IX. Two Articles on Management Accounting:

5 Best Practices for Intercompany Accounting (Page 42)
Highlights of Management Accounting Research (Page 50)

Section X Three Tax Columns:

From *The Tax Adviser*: Filing Considerations for Active Duty Military (Page 64)
Tax Practice Corner: Short-term Rentals, the Sharing Economy, and Tax (Page 66), and
Tax Matters (Page 68)

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

Section I. A 10-K for the Taxpayer (Page 46 of October *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 5.

Section I Learning Objectives:

1. To learn how to analyze information presented in the annual *Financial Report of the United States Government*.
2. To learn about the work of the Federal Accounting Standards Advisory Board (FASAB).

Section I Review Questions:

1. The *Financial Report of the United States Government* includes a comprehensive view of the federal government's:
 - a. Revenues and costs.
 - b. Assets and liabilities.
 - c. Other obligations and commitments.
 - d. A, b and c.
 - e. A and b but not c.
2. The *Financial Report of the United States Government* contains:
 - a. Traditional accrual-based financial statements with supporting information.
 - b. Nontraditional sustainability financial statements with supporting information.
 - c. Both a and b.
 - d. Neither a nor b.
3. Which of the following has (have) been granted *Rule 203* standard-setting authority?
 - a. Financial Accounting Standards Board.
 - b. Government Accounting Standards Board.
 - c. Federal Accounting Standards Board.
 - d. A, b and c.
 - e. A and b but not c.
4. Which of the following received the most scathing comments from the GAO?
 - a. The Department of Defense.
 - b. The Department of Veterans Affairs.
 - c. The Department of Agriculture.
 - d. The Social Security Administration.
5. According to the FY2015 *Financial Report of the U.S. Government*, which of the following has risen the most, both in percentage terms and in absolute dollar terms, since 1980?
 - a. Total spending including interest on the debt.
 - b. Total receipts.
 - c. Debt held by the public.
 - d. Total spending excluding interest on the debt.

Section I Solutions and Suggested Responses to Review Questions are on the following page.

Section I Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 47 of October *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 *Financial Report of the United States Government* includes revenues and costs, assets and obligations, as well as other obligations and commitments.
- e. Incorrect. The *Financial Report of the United States Government* includes revenues and costs, assets and obligations, as well as other obligations and commitments.

Review Question 2. (Please see page 48 of October *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 *Financial Report of the United States Government* contains both traditional accrual-based financial statements with supporting information and nontraditional sustainability financial statements with supporting information.
- d. Incorrect. The *Financial Report of the United States Government* contains both traditional accrual-based financial statements with supporting information and nontraditional sustainability financial statements with supporting information.

Review Question 3. (Please see page 50 of October *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, the GASB as well as the FASAB have all been granted *Rule 203* standard-setting authority.
- e. Incorrect. The FASB, the GASB as well as the FASAB have all been granted *Rule 203* standard-setting authority.

Review Question 4. (Please see page 48 of October *JoA*.)

- a. **Correct.** The GAO disclaimed an opinion on the DOD's statements due to the agency's "inability to adequately account for its costs and assets, among other issues."
- b. Incorrect. The Department of Veterans did not receive a disclaimer.
- c. Incorrect. The DHHS did not receive a disclaimer.
- d. Incorrect. The Social Security Administration did not receive a disclaimer.

Review Question 5. (Please see page 51 of October *JoA*.)

- a. Incorrect. Total spending including interest rose sharply but not as fast as debt.
- b. Incorrect. This is part of but not the most complete answer.
- c. **Correct.** Total debt held by the public increased even faster than total spending.
- d. Incorrect. Total spending excluding interest on the debt rose but not as sharply as total spending including interest or the total debt held by the public.

=====End of Section I.

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Section II. Three Tax Columns:

From *The Tax Adviser: Tax Issues for Professional Gamblers* (Page 62 of October *JoA*)

Tax Practice Corner: Keeping Clients' Tax Data Secure (Page 64), and Tax Matters (P. 66)

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 about how professional gamblers are taxed.
2. To learn about CPAs' ethical and legal responsibilities to keep clients' tax data secure.

Section II Review Questions:

1. Professional gamblers report gambling winnings and losses on:
 - a. Schedule C of Form 1040.
 - b. Form 1120.
 - c. Schedule A of Form 1040.
 - d. Schedule D of Form 1040.
2. Which of the following states permits amateur gamblers to deduct gambling losses as itemized deductions?
 - a. Texas.
 - b. Illinois.
 - c. Indiana.
 - d. Michigan.
 - e. Ohio.
3. May a professional gambler apply a business loss from gambling against other income for the year for federal income tax purposes?
 - a. Yes.
 - b. No
4. CPAs are subject to:
 - a. Section 7216 criminal and monetary penalties on tax preparers who knowingly or recklessly disclose return-related information.
 - b. Gramm-Leach-Bliley Act and FTC financial privacy and safeguard rules.
 - c. State laws that impose security and privacy standards.
 - d. A, b and c.
 - e. A and b but not c.
5. Software is available that blocks unauthorized _____ of confidential data.
 - a. Transmission
 - b. Copying
 - c. Downloading
 - d. A, b and c
 - e. A and b but not c

Section II Solutions and Suggested Responses to Review Questions Appear on the Next Page.

Section II Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 62 of October *JoA*.)

- a. **Correct.** The professional gambler reports winnings and losses for federal purposes on Schedule C of Form 1040, *Profit or Loss From Business*.
- b. Incorrect. Form 1120 is a return used by corporations.
- c. Incorrect. Schedule A of Form 1040 is used to report itemized deductions.
- d. Incorrect. Schedule D of Form 1040 is used to report capital gains and losses.

Review Question 2. (Please see page 62 of October *JoA*.)

- a. **Correct.** Texas is the only state listed that allows amateur gamblers to deduct gambling losses as itemized deductions.
- b. Incorrect. Illinois does not allow amateur gamblers deduct gambling losses as itemized deductions.
- c. Incorrect. Indiana does not allow amateur gamblers deduct gambling losses as itemized deductions.
- d. Incorrect. Michigan does not allow amateur gamblers deduct gambling losses as itemized deductions.
- e. Incorrect. Ohio does not allow amateur gamblers deduct gambling losses as itemized deductions.

Review Question 3. (Please see page 62 of October *JoA*.)

- a. **Correct.** Unlike amateur gamblers, professional gamblers may apply a business loss from gambling against other income for the year.
- b. Incorrect. Unlike amateur gamblers, professional gamblers may apply a business loss from gambling against other income for the year.

Review Question 4. (Please see page 64 of October *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.** CPAs are subject to Section 7216, the Gramm-Leach-Bliley Act, FTC financial privacy and safeguards rules as well as state laws that impose security and privacy standards.
- e. Incorrect. CPAs are subject to Section 7216, the Gramm-Leach-Bliley Act, FTC financial privacy and safeguards rules as well as state laws that impose security and privacy standards.

Review Question 5. (Please see page 65 of October *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.** Software is available that blocks unauthorized transmission, copying and downloading of confidential data.
- e. Incorrect. Software is available that blocks unauthorized transmission, copying and downloading of confidential data.

=====End of Section II.

Section III. Year-End Tax Planning and What's New for 2016 – Sponsored Report (Page 75)

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 11 through 15.

Section III Learning Objectives:

1. To learn about changes to three federal tax credits and how they affect taxpayers and practitioners.
2. To learn about the Sec. 179 expense deduction and the 50% bonus depreciation rules.
3. To learn about provisions with permanent extensions, 5-year extensions and 2-year extensions, respectively.

Section III Review Questions:

1. The Consolidated Appropriations Act, 2016, P.L. 114-113 extended _____ the provision in Sec. 408(d)(8) that allows a taxpayer who are at least 70 ½ years old to make up to \$100,000 in qualified charitable distributions from individual retirement accounts without including the distributions in income.
 - a. For one year
 - b. For two years
 - c. For three years
 - d. For five years
 - e. Permanently
2. The Consolidated Appropriations Act, 2016, P.L. 114-113 extended _____ the Sec. 51 work opportunity tax credit equal to 40% of the qualified first-year wages of employees who are members of a targeted group.
 - a. For one year
 - b. For two years
 - c. For three years
 - d. For five years
 - e. Permanently
3. The Consolidated Appropriations Act, 2016, P.L. 114-113 extended _____ the Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest, which permits a taxpayer whose income is below certain thresholds to deduct the cost of premiums on mortgage insurance purchased in connection with acquisition indebtedness on the taxpayer's principal residence.
 - a. For one year
 - b. For two years
 - c. For three years
 - d. For five years
 - e. Permanently
4. The kiddie tax applies to unearned income over _____ per year of a child who is under 18.
 - a. \$1,000
 - b. \$1,100
 - c. \$2,000
 - d. \$2,100
5. The EITC credit rate is _____ for taxpayers with no qualifying children.
 - a. 7.65%
 - b. 34%
 - c. 40%
 - d. 45%

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 85 of October *JoA*.)

- a. Incorrect. The provision allowing qualified charitable distributions from IRAs (that don't have to be included in income) was made permanent.
- b. Incorrect. The provision allowing qualified charitable distributions from IRAs (that don't have to be included in income) was made permanent.
- c. Incorrect. The provision allowing qualified charitable distributions from IRAs (that don't have to be included in Income) was made permanent.
- d. Incorrect. The provision allowing qualified charitable distributions from IRAs (that don't have to be included in income) was made permanent.
- e. **Correct.** The provision allowing qualified charitable distributions from IRAs (that don't have to be included in income) was made permanent.

Review Question 2. (Please see page 87 of October *JoA*.)

- a. Incorrect. The Sec. 51 work opportunity tax credit was extended through 2019 (i.e., three years).
- b. Incorrect. The Sec. 51 work opportunity tax credit was extended through 2019 (i.e., three years).
- c. **Correct.** The Sec. 51 work opportunity tax credit was extended through 2019 (i.e., three years).
- d. Incorrect. The Sec. 51 work opportunity tax credit was extended through 2019 (i.e., three years).
- e. Incorrect. The Sec. 51 work opportunity tax credit was extended through 2019 (i.e., three years).

Review Question 3. (Please see page 89 of October *JoA*.)

- a. Incorrect. The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest for qualifying taxpayers was extended by two years.
- b. **Correct.** The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest for qualifying taxpayers was extended by two years.
- c. Incorrect. The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest for qualifying taxpayers was extended by two years.
- d. Incorrect. The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest for qualifying taxpayers was extended by two years.
- e. Incorrect. The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest for qualifying taxpayers was extended by two years.

Review Question 4. (Please see page 77 of October *JoA*.)

- a. Incorrect. The threshold is higher than \$1,000.
- b. Incorrect. The threshold is higher than \$1,100.
- c. Incorrect. The threshold is higher than \$2,000.
- d. **Correct.** The threshold is \$2,100.

Review Question 5. (Please see page 85 of October *JoA*.)

- a. Correct. The EITC credit rate for a taxpayer with no qualifying children is 7.65%
- b. Incorrect. The EITC credit rate for a taxpayer with one qualifying child is 34%
- c. Incorrect. The EITC credit rate for a taxpayer with two qualifying children is 40%
- d. Incorrect. The EITC credit rate for a taxpayer with three qualifying children is 45%

-----End of Section III.

Section IV. 11 Tips for Success with Single Audits (Page 40 of November 2016 JoA)

Section IV Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. Please consider watching a you tube video on single audits: <https://www.youtube.com/watch?v=SS7q81EMQ-4>
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 the new Uniform Guidance regulations for single audits.
2. To learn about the new audit requirements, planning and independence rules, testing, and how to avoid pitfalls.

Section IV Review Questions:

1. The term “single audits” includes audits of _____ expending federal funds.
 - a. Governments
 - b. Not-for-profits
 - c. Institutions of higher education
 - d. Indian tribes
 - e. All of the above
2. The Uniform Guidance was issued by:
 - a. The Government Accounting Standards Board.
 - b. The Financial Standards Accounting Board.
 - c. The Federal Accounting Standards Board.
 - d. The Office of Management and Budgets.
3. Under the Uniform Guidance, engagement quality control reviewers are required to be:
 - a. Suitably qualified.
 - b. Firm partners.
 - c. Both a and b.
 - d. Neither a nor b.
4. The Uniform Guidance changed:
 - a. The threshold for a required single audit.
 - b. Certain aspects of how auditors select major programs to test.
 - c. Both a and b.
 - d. Neither a nor b.
5. Which of the following can be a threat to the integrity of single audits?
 - a. The self-review threat occurring when the auditor also prepared the financial statements or performed other nonauditing services.
 - b. Familiarity and the resulting lack of skepticism.
 - c. Both a and b.
 - d. Neither a nor b.

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

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 41 of November *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 one of the categories listed above is subject to the Uniform Guidance.

Review Question 2. (Please see page 41 of November *JoA*.)

- a. Incorrect. The Uniform Guidance was not issued by the GASB.
- b. Incorrect. The Uniform Guidance was not issued by the FASB.
- c. Incorrect. The Uniform Guidance was not issued by the Federal Accounting Standards Board.
- d. **Correct.** The Uniform Guidance not issued by the Office of Management and Budgets (OMB).

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

- a. **Correct.** The Uniform Guidance simply calls for someone who is suitably qualified to serve as quality control reviewer.
- b. Incorrect. The Uniform Guidance doesn't state or suggest that the quality control reviewer should be a firm partner.
- c. Incorrect. The Uniform Guidance doesn't state or suggest that the quality control reviewer should be a firm partner but does require that such person be suitably qualified.
- d. Incorrect. The Uniform Guidance doesn't state or suggest that the quality control reviewer should be a firm partner but does require that such person be suitably qualified.

Review Question 4. (Please see page 41 of November *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 Uniform Guidance changed both the threshold for a required single audit as well as certain aspects of how auditors select major programs to test.
- d. Incorrect. The Uniform Guidance changed both the threshold for a required single audit as well as certain aspects of how auditors select major programs to test.

Review Question 5. (Please see page 42 of November *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.** Both self-review and familiarity can be threats to the integrity of single audits.
- d. Incorrect. Both self-review and familiarity can be threats to the integrity of single audits.

===== End of Section IV.

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Section V. Boost the Bottom Line with Accounts Payable Best Practices (Page 50 of November 2016 JoA)

Section V Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. Please consider viewing the following youtube presentation on accounts payable best practices: <https://www.youtube.com/watch?v=uQ796Zqlhz8>
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 V Learning Objectives:

1. To learn the steps to take to establish an effective accounts payable process.
2. To learn how to improve net income and cash flow by capturing cash discounts and reducing overpayment by eliminating duplicate and fraudulent payments.

Section V Review Questions:

1. The steps in a well-rounded approach to vendor management include:
 - a. Continuous monitoring.
 - b. A robust registration process.
 - c. A thorough scrubbing of the organization's master list of vendors.
 - d. All of the above.
2. Disbursement errors include:
 - a. Duplicate payments.
 - b. Fraud.
 - c. Sales tax errors.
 - d. Pricing errors.
 - e. All of the above.
3. Recovery audits may be for:
 - a. Pricing issues.
 - b. Compliance issues.
 - c. Rebate issues.
 - d. Any of the above.
4. Taking advantage of “2/10, Net 30” terms on an invoice by paying it on day 10 can produce an ROI of approximately _____ per year.
 - a. 35%
 - b. 24%
 - c. 18%
 - d. 12%
5. True/False? One way to reduce lost discount-capture opportunities is to design the ERP system to show “Purchase Discounts Lost” as a metric to be observed.
 - a. True.
 - b. False.

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 November *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.** Each one of the above is a recommended step in vendor management.

Review Question 2. (Please see page 51 of November *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 one of the categories listed above is a disbursement error.

Review Question 3. (Please see page 54 of November *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.** Recovery audits may be performed on any of these areas to find trends and anomalies that can signal problems or potential problems.

Review Question 4. (Please see page 52 of November *JoA*.)

- a. **Correct.** Solution: By paying on the tenth day instead of on the 30th day, you would earn 2% in just 20 days. And because there are approximately 18 “20 day periods” in each year, the annualized rate would be 2% times 18 or 36% annualized.
- b. Incorrect. Solution: By paying on the tenth day instead of on the 30th day, you would earn 2% in just 20 days. And because there are approximately 18 “20 day periods” in each year, the annualized rate would be 2% times 18 or 36% annualized.
- c. Incorrect. Solution: By paying on the tenth day instead of on the 30th day, you would earn 2% in just 20 days. And because there are approximately 18 “20 day periods” in each year, the annualized rate would be 2% times 18 or 36% annualized.
- d. Incorrect. Solution: By paying on the tenth day instead of on the 30th day, you would earn 2% in just 20 days. And because there are approximately 18 “20 day periods” in each year, the annualized rate would be 2% times 18 or 36% annualized.

Review Question 5. (Please see page 52 of November *JoA*.)

- a. **Correct.** This metric would highlight the lost opportunity cost of not taking discounts. It could be accomplished by using the “net method” of recording purchases as described in financial accounting textbooks involving recording purchases at their net amount assuming taking advantage of any discounts offered. In any instance when the organization pays more than the “net” amount booked, “Purchase discounts lost” would be debited and highlighted by the ERP system.
- b. Incorrect. This metric would highlight the lost opportunity cost of not taking discounts. It could be accomplished by using the “net method” of recording purchases as described in financial accounting textbooks involving recording purchases at their net amount assuming taking advantage of any discounts offered. In any instance when the organization pays more than the “net” amount booked, “Purchase discounts lost” would be debited and highlighted by the ERP system.

===== End of Section V.

Section VI. Captive Insurance for the Middle Market (Page 58 of November *JoA*)

Section VI Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. Also, please consider watching a youtube video on captive insurance companies: <https://www.youtube.com/watch?v=TSOGOySybwc>
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 VI Learning Objectives:

1. To learn about about the purpose and benefits of captive insurance companies.
2. To learn how the provisions of the PATH Act offer new, favorable tax opportunities to owners of captive insurance companies.

Section VI Review Questions:

1. A captive insurance company:
 - a. Is an insurance company formed by a business or business owner to insure the risks of the business and related or affiliated businesses.
 - b. May be formed by multiple businesses or business owners from different companies.
 - c. Both a and b.
 - d. Neither a nor b.
2. The benefits of owning a captive insurance company include:
 - a. Flexibility in insurance coverage arrangements.
 - b. The potential to retain underwriting profits.
 - c. Both a and b.
 - d. Neither a nor b.
3. Captive insurance companies may be formed to:
 - a. Issue property and/or casualty insurance coverage.
 - b. Insure life and health risks.
 - c. Insure against liabilities that may be generally uninsurable or that are difficult to insure because coverage is unavailable in the commercial market or is excessively priced.
 - d. A, b and c.
 - e. A and b but not c.
4. A captive insurance company can elect small captive tax treatment afforded by Sec. 831 (b) as long as its net premiums written don't exceed _____ million per year.
 - a. \$1.2
 - b. \$2.2
 - c. \$2.6
 - d. \$3.2
5. In *Securitas Holdings*, the Tax Court focused on the number of _____ in making its decision.
 - a. Underlying risks.
 - b. Insureds

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 59 of November *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 captive insurance company is an insurance company formed by a business or business owner to insure the risks of the business and related or affiliated businesses or by multiple businesses or owners from different companies.
- d. Incorrect. A captive insurance company is an insurance company formed by a business or business owner to insure the risks of the business and related or affiliated businesses or by multiple businesses or owners from different companies.

Review Question 2. (Please see page 59 of November *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.** Owning a captive insurance company offers both the flexibility in arranging insurance coverage as well as the potential to retain underwriting profits.
- d. Incorrect. Owning a captive insurance company offers both the flexibility in arranging insurance coverage as well as the potential to retain underwriting profits.

Review Question 3. (Please see page 59 of November *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.** Captive insurance companies may be formed to issue property and/or casualty insurance, insure life and health risks as well as to insure against liabilities that are difficult to insure because coverage is unavailable in the commercial market or is excessively priced.
- e. Incorrect. Captive insurance companies may be formed to issue property and/or casualty insurance, insure life and health risks as well as to insure against liabilities that are difficult to insure because coverage is unavailable in the commercial market or is excessively priced.

Review Question 4. (Please see page 62 of the November *JoA*.)

- a. Incorrect. The threshold is greater than \$1.2 million.
- b. **Correct.** The threshold is \$2.2 million.
- c. Incorrect. The threshold is less than \$2.6 million.
- d. Incorrect. The threshold is less than \$3.2 million.

Review Question 5. (Please see page 64 of the November *JoA*.)

- a. **Correct.** In its decision, the Tax Court focused on the number of underlying risks rather than on the number of insureds.
- b. Incorrect. In its decision, the Tax Court focused on the number of underlying risks rather than on the number of insureds.

===== End of Section VI

Section VII. Three Tax Columns:

From *The Tax Adviser: FBAR Preparation and Ethical Risks* (Page 74 of November *JoA*)
Tax Practice Corner: Tax Help for Working Parents (Page 76), and Tax Matters (Page 78)

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 31 through 35.

Section VII Learning Objectives:

1. To learn about the ethical risks associated with preparing and filing FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR).
2. To learn about Sec. 21 federal credits for household and dependent care expenses.
3. To learn about the Sec. 45F employer-provided child care credits.
4. To learn about self-certification of late rollovers of retirement plan rollovers.

Section VII Review Questions:

1. CPAs are advised to provide a brief summary of FBAR filing requirements and the potential penalties for missed filings _____ to promote client understanding and engagement.
 - a. In the engagement letter
 - b. With the tax organizer
 - c. In a separate communication
 - d. Any or all of the above
 - e. A or b but not c
2. True/False? The primary risk in FBAR preparation is identifying accounts and instruments required to be reported.
 - a. True.
 - b. False.
3. The 2014 average annual cost nationwide of full-time, center-based care for an infant was:
 - a. \$9,909.
 - b. \$7,707.
 - c. \$6,606.
 - d. \$5,505.
4. Which of the following may qualify the taxpayer for the Sec. 21 nonrefundable credits?
 - a. Having a dependent, under age 13, of the taxpayer.
 - b. Having a spouse or dependent who is physically or mentally incapable of caring for himself or herself.
 - c. Both a and b.
 - d. Neither a nor b.
5. Rev. Proc. 2016-47 states that any IRA _____ may rely on the taxpayer's self-certification to accept and report receipt of a rollover contributions unless that person is aware of facts contrary to the certification.
 - a. Trustee
 - b. Custodian
 - c. Issuer or plan administrator
 - d. A, b or c
 - e. A or b but not c

Section VII Solutions and Suggested Responses to Review Questions are on the following page.

Section VII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 74.)

- 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.** CPAs must make a deliberate effort to ensure that clients are familiar with the FBAR requirements and the potential penalties for missed filings and therefore should consider any or all of these methods of communicating with clients.
- e. Incorrect. CPAs must make a deliberate effort to ensure that clients are familiar with the FBAR requirements and the potential penalties for missed filings and therefore should consider any or all of these methods of communicating with clients.

Review Question 2. (Please see page 76 of the November JoA.)

- a. **Correct.** The primary risk in FBAR preparation is identifying accounts and instruments required to be reported.
- b. Incorrect. The primary risk in FBAR preparation is identifying accounts and instruments required to be reported.

Review Question 3. (Please see page 76 of the November JoA.)

- a. **Correct.** The average annual costs nationwide for such care of an infant was \$9,909.
- b. Incorrect. The average annual costs nationwide for such care of an infant was greater than \$7,707.
- c. Incorrect. The average annual costs nationwide for such care of an infant was greater than \$6,606.
- d. Incorrect. The average annual costs nationwide for such care of an infant was greater than \$5,505.

Review Question 4: (Please page 76.)

- 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.** Having a dependent, under age 13, of the taxpayer as well as spouse or dependent who is physically or mentally incapable of caring for himself or herself may qualify for the Sec. 21 nonrefundable credits.
- d. Incorrect. Having a dependent, under age 13, of the taxpayer as well as spouse or dependent who is physically or mentally incapable of caring for himself or herself may qualify for the Sec. 21 nonrefundable credits.

Review Question 5. (Please see page 78 of November 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.** Retirement plan trustees, custodians, issuers or plan administrators may rely on the taxpayer's self-certification to accept and report receipt of a rollover contributions unless that person is aware of facts contrary to the certification.
- e. Incorrect. Retirement plan trustees, custodians, issuers or plan administrators may rely on the taxpayer's self-certification to accept and report receipt of a rollover contributions unless that person is aware of facts contrary to the certification.

===== End of Section VII.

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Section VIII. What's Your Fraud IQ? (Page 38)

Section VIII 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 36 through 40.

Section VIII Learning Objectives:

1. To learn how many bribery and corruption schemes are carried out.
2. To learn how to help organizations effectively guard against bribery and corruption schemes.

Section VIII Review Questions:

1. According to the Association of Certified Fraud Examiners' 2016 *Report to the Nations on Occupational Fraud and Abuse*, corruption schemes constitute _____ % of report fraud cases.
a. 15 b. 20 c. 25 d. 30 e. 35
2. According to the Association of Certified Fraud Examiners' 2016 *Report to the Nations on Occupational Fraud and Abuse*, corruption schemes cause a median loss of:
a. \$25000 b. \$50,000 c. \$100,000 d. \$150,000 e. \$200,000
3. An effective anti-corruption program should include:
a. A formal statement from the top level of the organization to demonstrate a genuine commitment to avoiding bribery and corruption.
b. Mechanisms for uncovering attempted corruption schemes.
c. Mechanisms for responding to attempted corruption schemes and disciplining the violators.
d. A, b and c.
e. A and b but not c.
4. True/False? The U. K. Bribery Act applies only to U. K. citizens and companies with headquarters in the United Kingdom.
a. True.
b. False.
5. True/False? The U. K. Bribery Act only criminalizes bribery of foreign public officials.
a. True.
b. False.

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

Section IX. Two Articles on Management Accounting:

5 Best Practices for Intercompany Accounting (Page 42)

Highlights of Management Accounting Research (Page 50)

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 41 through 45.

Section IX Learning Objectives:

1. To learn about five best practices to avoid problems and to effectively support new regulatory pressures associated with intercompany accounting.
2. To learn about the implications of recent academic research about the balanced scorecard, performance measures and other management accounting topics.

Section IX Review Questions:

1. Enterprise resource planning (ERP) systems should be designed to provide integrated reporting capabilities that met _____ requirements.
 - a. Tax
 - b. Statutory
 - c. Finance
 - d. All of the above
2. A master data management program helps ensure that:
 - a. New and acquired accounts are set up in alignment with the company's policies.
 - b. Intercompany transactions are processed in the same standardized way.
 - c. Both a and b.
 - d. Neither a nor b.
3. Global organizations should establish centers of excellence to include _____ experts from within the company.
 - a. Tax
 - b. Finance
 - c. Information technology (IT)
 - d. Treasury
 - e. All of the above
4. Standardized global policies should address:
 - a. Foreign exchange and currency.
 - b. Netting and settlement.
 - c. Both a and b.
 - d. Neither a nor b.
5. An effective cash management strategy should:
 - a. Reduce bank fees.
 - b. Reduce the amount of cash not earning interest.
 - c. Provide information that allows the company to effectively hedge currencies.
 - d. A, b and c.
 - e. A and b but not c.

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 44 of December *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.** ERP systems should provide integrated reported capabilities that meet tax, statutory and finance requirements.

Review Question 2: (Please see page 45 of December *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 master data management program ensures that new and acquired accounts are set up in alignment with company policies and that intercompany transactions are processed in the same standardized way each time.
- d. Incorrect. A master data management program ensures that new and acquired accounts are set up in alignment with company policies and that intercompany transactions are processed in the same standardized way each time.

Review Question 3: (Please see page 44 of December *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.** Global organizations should establish centers of excellence to include tax, finance, IT and treasury experts from within the company.

Review Question 4: (Please see page 44 of December *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.** Standardized global policies should address foreign exchange and currency as well as netting and settlement.
- d. Incorrect. Standardized global policies should address foreign exchange and currency as well as netting and settlement.

Review Question 5: (Please see page 45 of December *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.** An effective cash management strategy should reduce bank fees and the amount of cash not earning interest while also providing information that allows the company to effectively hedge currencies.

End of section IX

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Section X. Three Tax Columns:

From *The Tax Adviser: Filing Considerations for Active Duty Military* (Page 64)

Tax Practice Corner: Short-term Rentals, the Sharing Economy, and Tax (Page 66), and

Tax Matters (Page 68)

Section X 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 X Learning Objectives:

1. To learn some of the filing considerations for active duty military including advance consideration of specific tax issues.
2. To learn to about taxation of short-terms especially in light of the sharing economy and such services as Airbnb, HomeAway and VRBO.
3. To learn about courts' decisions in *CRI-Leslie, LLC* and *Scott Singer Installations, Inc.*

Section X Review Questions:

1. A military spouse files tax returns in:
 - a. His or her resident state.
 - b. His or her state of duty station.
 - c. Either a or b.
 - d. Neither a nor b.
2. If an active duty service member cannot sign a tax return due to disease or injury but can verbally authorize the return:
 - a. His or her spouse can sign for the service member.
 - b. The spouse should attach a signed, dated statement of explanation.
 - c. Both a and b.
 - d. Neither a nor b.
3. Under Sec. 280A, short-term rental hosts can rent space for up to _____ days during the year if they use it for personal purposes during the tax year for the greater of (1) 14 days or (2) 10% of the total days during the year they rent it to others at a fair rental.
a. 7 b. 14 c. 21 d. 28 e. 35
4. Short-term rental hosts who rent their personal residence where they themselves live _____ to pay tax on the income for fewer than 15 days during the year.
 - a. Have
 - b. Do not have
5. In *CRI-Leslie, LLC*, the court ruled that Sec. 1234A _____ to forfeited deposits when the property had been used in the taxpayer's trade or business.
 - a. Applies
 - b. Did not apply

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

Section X Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 64.)

- 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 military spouse has the option to file either in his or her resident state or state of duty station.
- d. Incorrect. A military spouse has the option to file in either in his or her resident state or state of duty station.

Review Question 2. (Please see page 64.)

- 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.**
- d. Incorrect.

Review Question 3. (Please see pages 66-67.)

- a. Incorrect. Assuming other conditions are met, hosts can rent space in their homes for more than seven days per year.
- b. **Correct.** Under the “less-than-15-day” rule in Sec. 280A, hosts do not have to pay tax on income they earn from actually renting the unit for fewer than 15 days during the year if they use it for personal purposes during the tax year for the greater of (1) 14 days or (2) 10% of the total days during the year they rent it to others at a fair rental.
- c. Incorrect. 21 days is over the threshold.
- d. Incorrect. 28 days is also over the threshold.

Review Question 4. (Please see pages 66.)

- a. Incorrect.
- b. **Correct.**

Review Question 5. (Please see page 68.)

- a. Incorrect. According to the court, Sec. 1234A does not apply to forfeited deposits when the property has been used in the taxpayer's trade or business.
- b. **Correct.** According to the court, Sec. 1234A does not apply to forfeited deposits when the property has been used in the taxpayer's trade or business.

===== **End of Section X.**