"Life can only be understood backwards; but it must be lived forwards."
---Soren Kierkegaard

Supplementary Study Guide to Accompany the Quarterly CPE Exam on Topics Addressed in the *Journal of Accountancy* First Quarter (January – March), 2017 (Course # 1701)

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***.

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

Section I. Student Loans: What You Need to Know before You Sign (Page 40 of January *JoA*)

Section I 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: https://www.youtube.com/watch?v=3SW9eZ_713g
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 the basics of how to choose student loans and to be able to advise clients about the options available.
2. To learn the basics of student loan repayment options.

Section I Review Questions:
1. Which of the following types of student loans are issued by banks?
   a. Federal student loans.
   b. Private student loans.
   c. Both a and b.
   d. Neither a nor b.

2. Which type of student loan offers more repayment flexibility and relief than the other?
   a. Federal student loans.
   b. Private student loans.

3. Which of the following is (are) eligible for income-driven repayment plans?
   a. Direct student loans.
   b. Federal family education loans (FFEL).
   c. Both a and b.
   d. Neither a nor b.

4. The monthly payments for the "old" income-based repayment student loan plans are generally set at _______ of discretionary income.
   a. 5%
   b. 10%
   c. 15%
   d. 20%

5. The monthly payments for the "new" income-based repayment student loan plans are generally set at _______ of discretionary income.
   a. 5%
   b. 10%
   c. 15%
   d. 20%

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

Section I Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 41 of January *JoA*.)
a. Incorrect. Federal student loans are issued directly to students by the federal government.
b. C**orrect.** Private student loans are issued by banks or other financial institutions.
c. Incorrect. Federal student loans are issued directly to students by the federal government but private student loans are issued by banks or other financial institutions.
d. Incorrect. Federal student loans are issued directly to students by the federal government but private student loans are issued by banks or other financial institutions.

Review Question 2. (Please see page 42 of January *JoA*.)
a. **Correct.** The repayment terms for FSLs are more flexible and offer relief if needed.
b. Incorrect. Private student loan terms are set by the lender and offer little flexibility or relief if the student has trouble repaying.

Review Question 3. (Please see page 43 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.** Both direct student loans as well as FFEL student loans are eligible for income-driven repayment plans by contacting the U.S. Department of Education's Office of Student Aid.
d.Incorrect. Both direct student loans as well as FFEL student loans are eligible for income-driven repayment plans.

Review Question 4. (Please see page 44 of January *JoA*.)
a. Incorrect. The repayment rate on old IBR loans is higher than 5%.
b. Incorrect. The repayment rate on old IBR loans is higher than 10%.
c. **Correct.** The repayment rate on old IBR loans is generally set at 15% of discretionary income.
d. Incorrect. The repayment rate on old IBR loans is lower than 20%.

Review Question 5. (Please see page 44 of January *JoA*.)
a. Incorrect. The repayment rate on new IBR loans is higher than 5%.
b. C**orrect.** The repayment rate on new IBR loans is generally set at 10% of discretionary income.
c. Incorrect. The repayment rate on new IBR loans is lower than 15%.
d.Incorrect. The repayment rate on new IBR loans is lower than 20%.
di.

==End of Section I.

Section II. Getting in Shape for Tax Season (Page 58 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.*
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 15.

Section II Learning Objectives:

1. To learn about the PATH Act's procedural and technical requirements for taxpayers and preparers.
2. To learn about selected 2016 tax rates, deductions and credits.
3. To learn about 2016 limits for certain retirement plan contributions and the annual gift tax exclusion.

Section II Review Questions:

1. For 2016, the capital gains tax rate for taxpayers in the 25% bracket was:
   a. 0%. b. 10%. c. 15%. d. 20%.

2. For 2016, there was a ceiling on the ______ self-employment tax(es).
   a. OASDI
   b. Medicare
   c. Both a and b
   d. Neither a nor b

3. Which of the following depreciation/expensing methods was (were) in effect for the 2016 year?
   a. Section 179 expensing option.
   b. Section 168(k) bonus depreciation
   c. Both a and b.
   d. Neither a nor b.

4. For tax year 2016, a single taxpayer is subject to a federal income tax rate of just 10% on taxable income of up to ________.
   a. $3,125 b. $6,250 c. $9,275 d. $12,350

5. For tax year 2016, married taxpayers filing joint returns are subject to a federal income tax rate of just 10% on taxable income of up to ________.
   a. $6,250 b. $12,500 c. $18,550 d. $24,700

6. For tax year 2016, a married taxpayer filing separately is subject to a federal income tax rate of just 10% on taxable income of up to ________.
   a. $3,125 b. $6,250 c. $9,275 d. $12,350

7. For tax year 2016, a head of household taxpayer is subject to a federal income tax rate of just 10% on taxable income of up to ________.
   a. $3,750 b. $6,750 c. $13,250 d. $17,250

8. For tax year 2016, trusts and estates are subject to a federal income tax rate of just 15% on taxable income of up to ________.
   a. $2,550 b. $5,100 c. $7,650 d. $10.200

9. For tax year 2016, the first _________ of taxable income of married taxpayers filing jointly or surviving spouses is exempt from the alternative minimum tax.
   a. $43,800 b. $63,800 c. $83,800 d. $163,800

10. For tax year 2016, the first _________ of taxable income of single or heads of household taxpayers is exempt from the alternative minimum tax.
    a. $33,900 b. $43,900 c. $53,900 d. $73,800

Section II Solutions and Suggested Responses to Review Questions appear on next two pages.

Section II Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. A taxpayer in the 25% tax bracket would pay a capital gains rate greater than 0%.
b. Incorrect. A taxpayer in the 25% tax bracket would pay a capital gains rate greater than 10%.
c. **Correct.** A taxpayer in the 25% tax bracket would pay a capital gains rate of 15%.
d. Incorrect. A taxpayer in the 25% tax bracket would pay a capital gains rate less than 20%.

Review Question 2. (Please see the Quick Guide following page 60 of January *JoA*.)
a. **Correct.** The OASDI tax is assessed only on the first $118,500 of self-employment income.
b. Incorrect. There is no ceiling on the Medicare tax.
c. Incorrect. While the OASDI tax has a ceiling, there is not ceiling on the Medicare tax.
d. Incorrect. While the OASDI tax has a ceiling, there is not ceiling on the Medicare tax.

Review Question 3. (Please see the Quick Guide following page 60 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.** Both Sec. 179 as well as Sec. 168 (k) bonus depreciation were in effect in 2016.
d. Incorrect. Both Sec. 179 as well as Sec. 168 (k) bonus depreciation were in effect in 2016.

Review Question 4. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The 10% rate extends higher than this.
b. Incorrect. The 10% rate extends higher than this.
c. **Correct.** The 10% rate extends to taxable income as high as $9,275 for this taxpayer.
d. Incorrect. The 10% rate does not extend this high.

Review Question 5. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The 10% rate extends higher than this.
b. Incorrect. The 10% rate extends higher than this.
c. **Correct.** The 10% rate extends to income of $18,550 for these taxpayers.
d. Incorrect. The 10% rate does not extend this high.

Review Question 6. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The 10% rate extends higher than this.
b. Incorrect. The 10% rate extends higher than this..
c. **Correct.** The 10% rate extends to income of $9,275 for this taxpayer.
d. Incorrect. The 10% rate does not extend this high.

Review Question 7. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The 10% rate extends higher than this.
b. Incorrect. The 10% rate extends higher than this.
c. **Correct.** The 10% rate extends to taxable income of $13,250 for these taxpayers.
d. Incorrect. The 10% rate does not extend this high.

Review Question 8. (Please see the Quick Guide following page 60 of January *JoA*.)
a. **Correct.** The 15% rate only extends to taxable income of up to $2,550 for trusts or estates.
b. Incorrect. The 15% rate only extends to taxable income of up to $2,550 for trusts or estates.
c. Incorrect. The 15% rate only extends to taxable income of up to $2,550 for trusts or estates.
d. Incorrect. The 15% rate only extends to taxable income of up to $2,550 for trusts or estates.

Review Question 9. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The threshold is higher than this.
b. Incorrect. The threshold is higher than this.
c. **Correct.** The threshold for these taxpayers is $83,800.
d. Incorrect. The threshold is not this high.

Review Question 10. (Please see the Quick Guide following page 60 of January *JoA*.)
a. Incorrect. The threshold is higher than this.
b. Incorrect. The threshold is higher than this.
c. **Correct.** The threshold for these taxpayers is $53,900.
d. Incorrect. The threshold is not this high.

==End of Section II.

Section III. From *The Tax Adviser:* Dealing with Tax Carryovers When a Spouse Dies (Page 65) and **Tax Practice Corner: Abating IRS Penalties** (Page 66 of January *JoA*)

Section III Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. 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 how to deal with tax carryovers when a spouse dies as well as understanding the wisdom of determining the amount of carryover attributable to each spouse while they're still living.
2. To learn certain ways to reduce or possibly eliminate common IRS penalty assessments.

Section III Review Questions:

1. Loss carryovers include:
   a. Net operating losses.
   b. Passive losses.
   c. Charitable contributions.
   d. A, b and c.
   e. A and b but not c.

2. After having filed joint tax returns for many years, upon the death of one spouse, each carryover existing at his or her death:
   a. Must be allocated to each spouse who generated the loss.
   b. Must be split equally between the deceased and surviving spouse.
   c. Must be assigned in full to the suviving spouse.
   d. Must be assigned in full to the deceased spouse.

3. Examples of penalties that the IRS can assess include:
   a. Late-payment penalties.
   b. Estimated tax penalties.
   c. Accuracy-related penalties.
   d. Late-filing penalties.
   e. All of the above.

4. The IRS may abate an estimated tax penalty if the taxpayer:
   a. Proves that the IRS incorrectly charged the penalty or made an error.
   b. Shows that calculating the penalty under a different method reduces or eliminates it.
   c. Proves that he or she meets the waiver criteria discussed in Sec. 6654 (e) (30.
   d. Any of the above.
   e. None of the above.

5. Assuming that a return position had a reasonable basis, the IRS ______ impose the accuracy-related penalty when a return position is properly disclosed.
   a. Cannot
   b. Can still

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

Section III Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 65 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.** Loss carryovers include all three (a, b and c).
e. Incorrect. Loss carryovers include all three (a, b and c).

Review Question 2. (Please see page 65 of January *JoA*.)
a. **Correct.** Upon the death of one spouse, any carryovers must be assigned to each respective spouse.
b. Incorrect. Upon the death of one spouse, any carryovers must be assigned to each respective spouse.
c. Incorrect. Upon the death of one spouse, any carryovers must be assigned to each respective spouse.
d. Incorrect. Upon the death of one spouse, any carryovers must be assigned to each respective spouse.

Review Question 3. (Please see page 66 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. Incorrect. This is part of but not the most complete answer.
e. **Correct.** Each of the above is an example of penalties that the IRS can assess.

Review Question 4. (Please see page 67 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 IRS may abate an estimated tax penalty in any of the above cases.
e. Incorrect. The IRS may abate an estimated tax penalty in any of the above cases.

Review Question 5. (Please see page 67 of January *JoA*.)
a. **Correct.** If the return position had been properly disclosed, and if the return position had a reasonable basis, the IRS cannot impose the accuracy-related penalty.
b. Incorrect. If the return position had been properly disclosed, and if the return position had a reasonable basis, the IRS cannot impose the accuracy-related penalty.

--End of Section III.

Section IV. Trusts and Estates: Uses and Tax Considerations (Page 52 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* and view https://www.youtube.com/watch?v=0Macfi_Qaqs
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 IV Learning Objectives:
1. To learn some basic general rules about taxation of estates and trusts.
2. To learn about some issues related to grantor trusts, pooled income funds, qualified subchapter S trusts, electing small business trusts, bankruptcy estates and foreign trusts.

Section IV Review Questions:

1. Trusts may incur higher income taxes than individuals because trusts generally have:
   a. Much lower deductions.
   b. Compressed marginal tax rates.
   c. A much lower threshold for the net investment income tax.
   d. A, b and c.
   e. A and b but not c.

2. The top rate of 20% for net long-term capital gains and qualified dividends goes into effect when taxable income of trusts and estates exceeds ________ in 2017.
   a. $4,000   b. $12,500   c. $125,000   d. $235,350   e. $470,700

3. Compared to nongrantor trusts, which of the following tax advantages do grantor trusts offer?
   a. Lower taxes.
   b. Eligibility to be an S corporation shareholder if the grantor trust is considered owned by a U.S. Taxpayer.
   c. Any gain from the sale of a personal residence may qualify for the Sec. 121 exclusion.
   d. A, b and c.

4. Do trusts and estates (other than bankruptcy estates) get a standard deduction?
   a. Yes.   b. No.

5. Do trusts and estates have the same progressive tax rates as individuals above the 10% bracket?
   a. yes.   b. No.

6. The tax brackets of trusts and estates is ______ compressed than those of individual taxpayers?
   a. More   b. Less

7. Can simple trusts make charitable contributions?
   a. Yes.   b. No.

8. Can complex trusts make charitable contributions?
   a. Yes.   b. No.

9. Do simple trusts require all income to be distributed currently?
   a. Yes.   b. No.

10. Is a grantor's trust income taxed to its grantor?
    a. Yes.   b. No.

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 53 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.** Each of these points can explain why trusts are more heavily taxed than individuals.
e. Incorrect. Each of these points can explain why trusts are more heavily taxed than individuals.

Review Question 2. (Please see page 53 of February *JoA*.)
a. Incorrect. The threshold is higher than $4,000.
b. **Correct.** Trusts begin to pay the top rate of 20% for net long-term capital gains and qualified dividends when taxable income exceeds $12,500 in 2017.
c. The threshold is much lower than $125,000.
d. The threshold is much lower than $235,350.
e. The threshold is much lower than $470,700.

Review Question 3. (Please see page 55 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 factors may explain why grantor trusts offer tax advantages over nongrantor trusts.

Review Question 4. (Please see page 53 of February *JoA*.)
a. Incorrect. Trusts and estates (other than bankruptcy estates) do not get a standard deduction.
b. **Correct.** Trusts and estates (other than bankruptcy estates) do not get a standard deduction.

Review Question 5. (Please see page 53 of February *JoA*.)
a. Incorrect. Trusts and estates do not have the same progressive tax rates as individuals.
b. **Correct.** Trusts and estates do not have the same progressive tax rates as individuals.

Review Question 6. (Please see page 53 of February *JoA*.)
a. **Correct.** The tax brackets of estates and trusts are more compressed than those of individuals.
b. Incorrect. The tax brackets of estates and trusts are more compressed than those of individuals.

Review Question 7. (Please see page 53 of February *JoA*.)
a. Incorrect. Simple trusts cannot make charitable contributions.
b. **Correct.** Simple trusts cannot make charitable contributions.

Review Question 8. (Please see page 53 of February *JoA*.)
a. **Correct.** Complex trusts can make charitable contributions.
b. Incorrect. Complex trusts can make charitable contributions.

Review Question 9. (Please see page 54 of February *JoA*.)
a. **Correct.** Simple trusts require that all income be distributed currently.
b. Incorrect. Simple trusts require that all income be distributed currently.

Review Question 10. (Please see page 54 of February *JoA*.)
a. **Correct.** A grantor's trust income is taxed to its grantor.
b. Incorrect. A grantor's trust income is taxed to its grantor.

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

Section V. Three Tax Columns:
From *The Tax Adviser*: Sec. 457(f) Plans Get Helpful Guidance (Page 58 of February *JoA*), **Tax Practice Corner: Whether to Amend a Retur**n (Page 60), and **Tax Matters** (Page 62)

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 30 through 35.

Section V Learning Objectives:

1. To learn about the tax differences between exempt and nonexempt deferred compensation plans.
2. To learn about the tax practitioner's obligations to amend tax returns or other tax filings when errors or omissions are discovered in clients' tax returns.
3. To learn about court rulings in *Hunsaker* and *Coates*.

Section V Review Questions:

1. Sec. 457(b) plans may be sponsored by any of the following <u>except</u>:
   a. State government entities. c. For-profit entities.
   b. Local government entities. d. Tax-exempt entities.

2. Sec. 457(f) plan benefits _______ subject to income tax upon vesting.
   a. Are
   b. Are not

3. Who bears the responsibility of deciding whether to amend a tax return after an error has been discovered in an income tax return?
   a. The taxpayer. c. Both a and b.
   b. The tax preparer. d. Neither a nor b.

4. Does Treasury Circular 230 require the practitioner who discovers an error on a client's tax return to report the error to the IRS?
   a. Yes. b. No.

5. In cases involving casualty losses, must values be established by independent professional appraisals?
   a. Yes, always. b. Yes, generally but there may be exceptions. c. No, never.

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 58 of February *JoA*.)
a. Incorrect. State governments can sponsor 457(f) plans.
b. Incorrect. Local governments can sponsor 457(f) plans.
c. **Correct**. For-profit entities cannot sponsor 457(f) plans.
d. Incorrect. Tax-exempt entities can sponsor 457(f) plans.

Review Question 2. (Please see page 58 of February *JoA*.)
a. **Correct.** Sec. 457(f) plan benefits are subject to tax upon vesting.
b. Incorrect. Sec. 457(f) plan benefits are subject to tax upon vesting.

Review Question 3. (Please see page 58 of February *JoA*.)
a. **Correct.** The taxpayer bears sole responsibility for deciding whether to amend a tax return.
b. Incorrect. A tax preparer who discovers an error in a client's tax return can only advise the client. It is not the responsibility of the preparer to amend the original filing.
c. Incorrect. A tax preparer who discovers an error in a client's tax return can only advise the client. It is not the responsibility of the preparer to amend the original filing.
d. Incorrect. A tax preparer who discovers an error in a client's tax return can only advise the client. It is not the responsibility of the preparer to amend the original filing.

Review Question 4. (Please see page 61 of February *JoA*.)
a. Incorrect. Circular 230 does not require a practitioner who discovers and error on a client's tax return to report the error to the IRS.
b. C**orrect.** Circular 230 does not require a practitioner who discovers and error on a client's tax return to report the error to the IRS.

Review Question 5. (Please see page 59 of February *JoA*.)
a. Incorrect. While an independent, professional appraisal is generally required, there are exceptions.
b. C**orrect.** In *Coates,* the taxpayer demonstrated a keen knowledge of values and the court considered it credible.
c. Incorrect. While an independent, professional appraisal is generally required, there are exceptions.

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

Section VI. A Framework for Continuous Auditing: Why Companies Don't Need to Spend Big Money (Page 38 of March *JoA*)

Section VI Assignment:
1. Study the article (reference text) in the *journal of accountancy*, paying particular attention to our *learning objectives stated below* and view this video: https://www.youtube.com/watch?v=fDje_oaxklo
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 VI Learning Objectives:
1. To learn what continuous auditing is, what it entails compared to traditional auditing.
2. To learn about the the need for as well as the benefits of continuous auditing.
3. To learn how to use continuous auditing in a cost-effective manner.

Section VI Review Questions:

1. Continuous auditing is:
   a. A method used to perform control risk assessments automatically on a frequent basis.
   b. A way to replace traditional auditing.
   c. Both a and b.
   d. Neither a nor b.

2. To succeed with continuous auditing, companies must:
   a. Develop costly, complex data analytic tools.
   b. Employ thoughtful ways to use their existing systems to analyze data that they already have.
   c. Both a and b.
   d. Neither a nor b

3. Continuous auditing is used to:
   a. Initiate audit plan activities.
   b. Increase internal audit coverage.
   c. Increase management's risk-based knowledge of the organization as data are collected, analyzed and reported on a timely basis.
   d. A, b and c.

4. Continuous auditing should include _________ review.
   a. Quantitative
   b. Qualitative
   c. Both a and b
   d. Neither a nor b

5. The second of the seven steps for continuous auditing is:
   a. configuring parameters.
   b. Establishing priority areas.
   c. Identifying audit rules.
   d. Reporting results.

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

Section VI Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 39.)
a. **Correct.** Continuous auditing is an ongoing activity whose purpose is to perform control and risk assessments using existing systems to automatically perform tests to find unusual trends.
b. Incorrect. Continuous auditing is meant to supplement, not to replace, traditional auditing methods.
c. Incorrect. Continuous auditing activities are not intended to replace traditional auditing work.
d. Incorrect. Continuous auditing activities are not intended to replace traditional auditing work.

Review Question 2: (Please page 39.)
a. Incorrect. It is not necessary to develop separate systems or use complex analytic tools.
b. **Correct.** Continuous auditing can employ existing systems and Excel to monitor existing data.
c. Incorrect. Continuous auditing can employ existing systems and Excel to monitor existing data.
d. Incorrect. Continuous auditing can employ existing systems and Excel to monitor existing data.

Review Question 3: (Please see page 39.)
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.** Continuous auditing is used to accomplish all of these activities.

Review Question 4. (Please see page 42.)
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.** Continuous auditing should include both kinds of review.
d. Incorrect. Continuous auditing should include both kinds of review.

Review Question 4. (Please see page 40.)
a. Incorrect. Configuring parameters is the fourth step.
b. Incorrect. Establishing priority areas is the first step.
c. **Correct.** Identifying audit rules is the second of the seven steps.
d. Incorrect. Reporting results is the sixth of the seven steps.

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

Section VII. Get Revenue Recognition Right at Not-for-Profits (Page 44 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* and view https://www.youtube.com/watch?v=I5CTcHZqna4
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 VII Learning Objectives:
1. To learn what constitutes a contribution to a not-for-profit.
2. To learn what distinguishes a contribution from an exchange according to FASB's latest standards for not-for-profits' financial reporting.

Section VII Review Questions:

1. FASB standards require that not-for-profits report __________ as revenue.
   a. Contributions
   b. Exchanges
   c. Both a and b
   d. Neither a nor b

2. Under FASB standards, which of the following do not-for-profits report as revenue?
   a. Unconditional promises to donate assets.
   b. Conditional promises to donate assets.
   c. Both a and b.
   d. Neither a nor b.

3. Which of the following factors is (are) indicative of a contribution?
   a. The payor receives a direct benefit from the payee.
   b. There are economic penalties if the terms of the agreement are not met.
   c. The payor specifies the time and delivery of any goods or services.
   d. A, b and c.
   e. None of the above.

4. For not-for-profits that have issued securities traded on a national exchange, the new reporting standard takes effect in annual reporting periods beginning after:
   a. June 15, 2017.
   b. December 15, 2017.
   c. June 15, 2018.
   d. December 15, 2018.
   e. June 15, 2019.

5. For not-for-profits that have <u>not</u> issued securities traded on a national exchange, the new reporting standard takes effect in annual reporting periods beginning after:
   a. June 15, 2017.
   b. December 15, 2017.
   c. June 15, 2018.
   d. December 15, 2018.
   e. June 15, 2019.

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 45.)
a. **Correct.** Contributions but not exchanges must be shown as revenues for not-for-profits.
b. Incorrect. Exchanges may not be included as revenue for not-for-profits.
c. Incorrect. Contributions but not exchanges must be shown as revenues for not-for-profits.
d. Incorrect. Contributions but not exchanges must be shown as revenues for not-for-profits.

Review Question 2. (Please see page 45.)
a. **Correct.** Only unconditional promises to pay (with “no strings attached”) can be reported as revenue.
b. Incorrect. Generally, conditional promises to pay cannot be included among revenues for NFPs.
c. Incorrect. Unconditional – not conditional – promises to pay are treated as revenues for NFPs.
d. Incorrect. Unconditional – not conditional – promises to pay are treated as revenues for NFPs.

Review Question 3. (Please see page 46.)
a. Incorrect. This factor would be indicative of an exchange rather than a contribution.
b. Incorrect. This factor would be indicative of an exchange rather than a contribution.
c. Incorrect. This factor would be indicative of an exchange rather than a contribution.
d. Incorrect. All of these factors would be indicative of an exchange rather than a contribution.
e. **Correct.** None of these factors would be indicative of a contribution.

Review Question 4: (Please page 47.)
a. Incorrect. The effective date is after this date.
b. **Correct.** The effective date for such not-for-profits is December 15, 2017.
c. Incorrect. The effective date is before this date.
d. Incorrect. The effective date is before this date.
e. Incorrect. The effective date is before this date.

Review Question 5: (Please see page 47.)
a. Incorrect. The effective date is after this date.
b. Incorrect. The effective date is after this date.
c. Incorrect. The effective date is after this date.
d. **Correct.** The effective date for such not-for-profits is December 15, 2018.
e. Incorrect. The effective date is before this date.

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

Section VIII. Two Tax Columns:

From *The Tax Advisor:* State Issues with the new Federal Partnership Audits (Page 56) and
Tax Practice Corner: New PATH for Depreciation (Page 58 of March *JoA*)

Section VIII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below* and view https://www.youtube.com/watch?v=Q95uXrIccmg&t=228s
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 VIII Learning Objectives:

1. To learn about the radical expansion of the IRS's powers in dealing with partnership audits.
2. To learn about the PATH Act's provisions making the 15-year property designation permanent.
3. T learn about the removal of the separate Sec. 179 dollar limitation.

Section VIII Review Questions:

1. Until the Bipartisan Budget Act ("BBA") of 2015 dealing with audits of partnerships was enacted, the IRS could collect taxes from:
   a. Partners individually. c. Both a and b.
   b. Partnerships. d. Neither a nor b.

2. Qualified retail improvements are costs associated with improvements to ______ portions of nonresidential buildings open to the public and used in retail trade or business.
   a. Interior c. Both a and b
   b. Exterior d. Neither a nor b

3. In 2017, a business that places qualified real property costing $1,000,000 into service can expense, under Sec. 179, up to:
   a. $250,000. b. $260,000. c. $500,000. d. $510,000.

4. New rules allowing the IRS to assess and collect tax from the partnership itself are initially applicable for audits of tax years beginning on or after:
   a. January 1, 2018.
   b. April 1, 2018.
   c. July 1, 2018.
   d. October 1, 2018.
   e. January 1, 2018.

5. Does qualified improvement property include improvements attributable to the enlargement of the building as well as the building's internal structural framework?
   a. Yes.
   b. No.

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 56.)
a. **Correct.** Before the BBA of 2015, the IRS could only collect from the partners individually.
b. Incorrect. Before the BBA of 2015, the IRS could not collect from the partnership itself.
c. Incorrect. Before the BBA of 2015, the IRS could collect only from the partners.
d. Incorrect. Before the BBA of 2015, the IRS could collect only from the partners.

Review Question 2: (Please see page 59.)
a. **Correct.** Qualified retail improvements include only the interiors of such buildings.
b. Incorrect. Qualified retail improvements do not include the exteriors of such buildings.
c. Incorrect. Qualified retail improvements include only the interiors of such buildings.
d. Incorrect. Qualified retail improvements include only the interiors of such buildings.

Review Question 3: (Please see page 58.)
a. Incorrect. The PATH Act increased the dollar limit of Sec. 179 expensing above $250,000.
b. Incorrect. The PATH Act increased the dollar limit of Sec. 179 expensing above $260,000.
c. Incorrect. The PATH Act increased the dollar limit of Sec. 179 expensing above $500,000.
d. **Correct.** The PATH Act increased the dollar limit of Sec. 179 expensing to $510,000.

Review Question 4: (Please see page 56.)
a. **Correct.** The new rules are effective for audits of tax years beginning on or after January, 2018.
b. Incorrect. The new rules are effective for audits of tax years beginning before this date.
c. Incorrect. The new rules are effective for audits of tax years beginning before this date.
d. Incorrect. The new rules are effective for audits of tax years beginning before this date.
e. Incorrect. The new rules are effective for audits of tax years beginning before this date.

Review Question 5: (Please see page 59.)
a. **Correct.** Qualified improvement property includes all of these elements.
b. Incorrect. Qualified improvement property includes all of these elements.

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

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