

“Highly educated young people are tutored, taught, and monitored in all aspects of their lives except the most important, which is character-building. But without character and courage, nothing else lasts.”
...David Brooks

**Supplementary Study Guide to Accompany the
Quarterly CPE Exam on
Topics Addressed in the *Journal of Accountancy*
Second Quarter (April – June), 2017**

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 April 2017:

Section I. Audit Updates Featuring Two Articles Highlighting Developments in Auditing
Rethinking the Audit (Page 28) and How to Enable Audit Innovation (Page 33)

Section II. Using Excel and Benford's Law to Detect Fraud (Page 44)

Section III. Tax Updates Featuring Three Tax Columns:
From *The Tax Adviser*: How to Obtain Rescission of a 90-Day Letter (Page 56)
Tax Practice Corner: More on Short-term Rentals (Page 58), and
Tax Matters (Page 60)

Sections IV – VI Relate to the *Journal of Accountancy* of May 2017:

Section IV. Do You Really Know Where the Money's Going? (Page 50)

Section V. ESOPs Help Some CPA Firms with Retention, Succession (Page 54)

Section VI. Tax Updates Featuring Three Tax Columns:
From *The Tax Adviser*: Reverse Like-kind Exchanges Get Tax Court Approval (Page 68))
Tax Practice Corner: More R&D Tax Help (Page 70), and Tax Matters (Page 72)

Sections VII – X Relate to the *Journal of Accountancy* of June 2017

Section VII. What's Your Fraud IQ? (Page 32)

Section VIII. Audit Documentation: Tips for Getting It Right(Page 38)

Section IX. U.S. Tax and FASB's New Paradigm for Revenue Recognition (Page 62)

Section X. Tax Updates Featuring Three Tax Columns:
From *The Tax Adviser*: The Growing Trend of Soda Taxes (Page 72)
Tax Practice Corner: Closed Years Are Fair Game in Examinations of NOL Carryovers (Page 74), and
Tax Matters (Page 76.)

The Learning Objectives are stated in each of the sections.

**Section I. Audit Updates Featuring Two Articles Highlighting Developments in Auditing:
Rethinking the Audit (Page 28) and How to Enable Audit Innovation (Page 33, April 2017 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 auditors are using innovative technologies to perform parts of audits.
2. To learn how auditors are using strategic alliances with technology companies to develop audit tools.

Section I Review Questions:

1. Deloitte uses Argus to review:
 - a. Executive comp agreements.
 - b. Invoices.
 - c. Financial statements.
 - d. A, b and c.
 - e. A and b but not c.
2. Using Icount, Deloitte auditors can:
 - a. Collect and consolidate inventory count results automatically for real-time consolidation and analysis.
 - b. Use voice-to-text capability to create working paper review notes.
 - c. Generate working papers automatically.
 - d. A, b and c.
 - e. A and b but not c.
3. What percentage of the winners of the 2016 Deloitte innovation challenge had been with the firm for at least two years?
 - a. 0%.
 - b. 20%.
 - c. 40%.
 - d. 60%.
 - e. 80%.
4. True/False? In today's technology-driven world, auditors need to be trained as computer programmers?
 - a. True.
 - b. False.
5. At Deloitte, the technology tools such as Argus or Icount are used by:
 - a. First-year auditors.
 - b. Audit partners.
 - c. Both a and b.
 - d. Neither a nor b.

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 30 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.** Argus is used by Deloitte to review executive compensation agreements, invoices as well as financial statements.
- e. Incorrect. Argus is used by Deloitte to review executive compensation agreements, invoices as well as financial statements.

Review Question 2. (Please see page 31 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.** Deloitte uses Icount to collect and consolidate inventory count results automatically for real-time consolidation and analysis, use voice-to-text capability to create working paper review notes, as well as to generate working papers automatically.
- e. Incorrect. Deloitte uses Icount to collect and consolidate inventory count results automatically for real-time consolidation and analysis, use voice-to-text capability to create working paper review notes, as well as to generate working papers automatically.

Review Question 3. (Please see page 34 of April *JoA*.)

- a. **Correct.** None of the winners had been with Deloitte for more than a year and a half.
- b. Incorrect. None of the winners had been with Deloitte for more than a year and a half.
- c. Incorrect. None of the winners had been with Deloitte for more than a year and a half.
- d. Incorrect. None of the winners had been with Deloitte for more than a year and a half.
- e. Incorrect. None of the winners had been with Deloitte for more than a year and a half.

Review Question 4. (Please see page 34 of April *JoA*.)

- a. Incorrect. The point of this section of the course is that auditors need to partner with technology companies to apply applicable technology to the auditing process, not to transform auditors into programmers.
- b. **Correct.** The point of this section of the course is that auditors need to partner with technology companies to apply applicable technology to the auditing process, not to transform auditors into programmers.

Review Question 5. (Please see page 34 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.** One of the points made in this section of the course is that the technology tools must be engineered to be easy to understand so that all Deloitte auditors – from first-year auditors to audit partners – can quickly learn to use them.
- d. Incorrect. One of the points made in this section of the course is that the technology tools must be engineered to be easy to understand so that all Deloitte auditors – from first-year auditors to audit partners – can quickly learn to use them.

=====End of Section I.

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Section II. Using Excel and Benford's Law to Detect Fraud (Page 44)

Section II 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 youtube video on applying Benford's Law to auditing analytics: <https://www.youtube.com/watch?v=Xe9dC1rjUDg>
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 the factors to consider in choosing between a Roth IRA and a traditional IRA.
2. To learn about about the factors to consider before rolling over a traditional IRA to a Roth IRA.
3. To learn about the re characterization of rollovers into Roth IRAs as well as reconversions of recharacterized accounts.

Section II Review Questions:

1. The story of Benford's law can be traced back to as early as:
 - a. 1792.
 - b. 1881.
 - c. 1938.
 - d. 1972.
2. Benford's Law holds that the numeral 1 will be the leading digit in a genuine data set of numbers _____ of the time.
 - a. 10.1%
 - b. 20.1%
 - c. 30.1%
 - d. 40.1%
3. Of the following, which is most likely to be the leading digit in a genuine data set of numbers?
 - a. 2
 - b. 4
 - c. 6
 - d. 8
4. Of the following, which is least likely to be the leading digit in a genuine data set of numbers?
 - a. 2
 - b. 4
 - c. 6
 - d. 8
5. The results obtained using Benford's Law analysis _____ considered definitive.
 - a. Should be
 - b. Should not be

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 49 of April *JoA*.)

- a. Incorrect. The story of Benford's Law doesn't go back to 1792, the year UNC was founded.
- b. **Correct.** The story of Benford's Law can be traced back to 1881 when an astronomer named Simon Newcomb noticed that pages in a book of logarithm tables bearing the lowest values were much more used than pages with higher values.
- c. Incorrect. The story of Benford's Law goes back further than 1938 when Frank Benford tested Newcomb's hypothesis.
- d. Incorrect. The story of Benford's Law goes back further than 1972 when economist Hal Varian wrote that Benford's Law might be used to detect the possibility of fraud.
- e. Incorrect.

Review Question 2. (Please see page 45 of April *JoA*.)

- a. Incorrect. The digit 1 would be expected to appear more often than this.
- b. Incorrect. The digit 1 would be expected to appear more often than this.
- c. **Correct.** It would be expected to appear 30.1% of the time.
- d. Incorrect. The digit 1 would not be expected to appear this often.

Review Question 3. (Please see page 45 of April *JoA*.)

- a. **Correct.** Numbers with leading digit of 2 can be expected to occur more often than either 4, 6 or 8.
- b. Incorrect. Numbers with leading digit of 4 can be expected to occur less often than 2.
- c. Incorrect. Numbers with leading digit of 6 can be expected to occur less often than 2.
- d. Incorrect. Numbers with leading digit of 8 can be expected to occur less often than 2.

Review Question 4. (Please see page 49 of April *JoA*.)

- a. Incorrect. Of the choices given, numbers with the leading digit 2 cannot be expected to occur least frequently.
- b. Incorrect. Of the choices given, numbers with the leading digit 4 cannot be expected to occur least frequently.
- c. Incorrect. Of the choices given, numbers with the leading digit 6 cannot be expected to occur least frequently.
- d. **Correct.** Of the choices given, numbers with the leading digit 8 can be expected to occur least frequently.

Review Question 5. (Please see page 49 of April *JoA*.)

- a. Incorrect. The process of applying Benford's Law should never be considered definitive and cannot either prove or disprove the presence of fraud.
- b. **Correct.** The value of Benford's Law analysis is that it can signal the need for further investigation.

=====**End of Section II.**

Section III. Tax Updates Featuring Three Tax Columns:

From *The Tax Adviser: How to Obtain Rescission of a 90-Day Letter* (Page 56))

Tax Practice Corner: More on Short-term Rentals (Page 58) and

Tax Matters (Page 60)

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 when rescission of a 90-day letter makes sense as well as the steps in obtaining a rescission.
2. To learn the answers to some frequently-asked questions about the taxation of short-term rental income.
3. To learn about Tax Court decisions in selected recent tax cases.

Section III Review Questions:

1. The rescission request of a 90-day letter in CP2000 (underreported income) goes to:
 - a. Appeals.
 - b. The Tax Court docketing queue.
 - c. Either a or b.
 - d. Neither a nor b.
2. If the rescission request is not granted, the taxpayer _____ elect to file a Tax Court petition within the 90-day window.
 - a. May
 - b. May not
3. Earnings from short-term rentals of rooms or apartments are _____ federal income tax.
 - a. Subject to
 - b. Exempt from
4. In *Ozimkoski*, the Tax Court ruled that the inherited IRA exception:
 - a. Applied.
 - b. Did not apply.
5. In *Sensenig*, the securities in question had stated:
 - a. Maturity dates.
 - b. Interest rates.
 - c. Promises to pay interest periodically as well as the face value at the stated maturity date.
 - d. A, b and c.
 - e. None of the above.

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 56 of April *JoA*.)

- a. **Correct.** The rescission request goes to Appeals instead of to the Tax Court docketing queue.
- b. Incorrect. Instead of going to the Tax Court docketing queue, the rescission request goes to Appeals.
- c. Incorrect. The rescission request goes to Appeals than to the Tax Court docketing queue.
- d. Incorrect. The rescission request goes to Appeals than to the Tax Court docketing queue.

Review Question 2. (Please see page 56 of April *JoA*.)

- a. **Correct.** If the rescission request is not granted the taxpayer may elect to file a Tax Court petition within the 90-day window.
- b. Incorrect. If the rescission request is not granted the taxpayer may elect to file a Tax Court petition within the 90-day window.

Review Question 3. (Please see page 56 of April *JoA*.)

- a. **Correct.** Earnings from short-term rentals of rooms or apartments are subject to federal income tax.
- b. Incorrect. Earnings from short-term rentals of rooms or apartments are not exempt from federal income tax

Review Question 4. (Please see page 60 of April *JoA*.)

- a. Incorrect. The Tax Court ruled that the inherited IRA exception did not apply.
- b. **Correct.** The Tax Court ruled that the inherited IRA exception did not apply because once her late husband's IRA was rolled over into her IRA, the distributions were from her IRA and not from her deceased husband's IRA.

Review Question 5: (Please see page 62 of April *JoA*.)

- a. Incorrect. The securities had no stated maturity date.
- b. Incorrect. The securities had no stated interest rate.
- c. Incorrect. The securities had no stated promise to pay either interest or principal.
- d. Incorrect. The securities had no stated promise to pay either interest or principal.
- e. **Correct.** The securities had no stated promise to pay either interest or principal; therefore the securities had no characteristics common to bonds or notes; therefore the securities represented ownership interest. Consequently, there could be worthless debt deduction.

-----End of Section III.

Section IV. Do You Really Know Where the Money's Going? (Page 50 of May 2017 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 youtube video on fraud prevention: <https://www.youtube.com/watch?v=tsdtjg8Zhsu>
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 seven ways to help prevent fraud in small and medium-size enterprises.
2. To learn how companies can prevent fraud by studying three case studies.

Section IV Review Questions:

1. According to the 2016 *Report to the Nations on Occupational Fraud and Abuse* by the Association of Certified Fraud Examiners, which of the following represents the most common form of asset misappropriation?
 - a. Theft of cash receipts.
 - b. Fraudulent disbursements.
 - c. Theft of cash on hand.
 - d. Misuse of assets.
 - e. Larceny of assets.
2. Which of the following types of fraudulent disbursements occur most frequently?
 - a. Billing schemes.
 - b. Register disbursements.
 - c. Check tampering.
 - d. Payroll schemes.
 - e. Expense reimbursement schemes.
3. Which of the following practices might have prevented the fraud at MediaCo?
 - a. Segregation of duties.
 - b. Vendor selection and approval.
 - c. Automated controls.
 - d. A, b and c.
 - e. A and b but not c.
4. Which of the following practices might have prevented the fraud at KitchenCo?
 - a. Segregation of duties.
 - b. Automated controls.
 - c. Vendor selection and approval.
 - d. A, b and c.
 - e. A and b but not c.
5. Which of the following cases illustrated a lack of a tight analytical and budget review?
 - a. MediaCo.
 - b. KitchenCo.
 - c. GlassesCo.
 - d. A, b and c.
 - e. A and b but not c.

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 50 of May *JoA*.)

- a. Incorrect. This is one form of asset misappropriation but not the most common.
- b. **Correct.** Fraudulent disbursements are the most common form of asset appropriation.
- c. Incorrect. This is one form of asset misappropriation but not the most common.
- d. Incorrect. This is one form of asset misappropriation but not the most common.
- e. Incorrect. This is one form of asset misappropriation but not the most common.

Review Question 2. (Please see page 50 of May *JoA*.)

- a. **Correct.** Billing schemes are the type of fraudulent disbursements occurring most frequently.
- b. Incorrect. Register disbursements are not the type of fraudulent disbursements occurring most frequently.
- c. Incorrect. Check tampering is not the type of fraudulent disbursements occurring most frequently.
- d. Incorrect. Payroll schemes are not the type of fraudulent disbursements occurring most frequently.
- e. Incorrect. Expense reimbursement schemes are not not the type of fraudulent disbursements occurring most frequently.

Review Question 3. (Please see page 52 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. The absence of adequate vendor selection and approval process did not cause the fraud at MediaCo.
- d. Incorrect. Lack of segregation of duties and automated controls but not a proper vendor selection and approval process contributed to the fraud at MediaCo.
- e. **Correct.** Lack of segregation of duties and automated controls but not a proper vendor selection and approval process contributed to the fraud at MediaCo.

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

- a. Incorrect. Lack of segregation of duties contributed to the fraud at KitchenCo but this is not the most complete answer.
- b. Incorrect. Lack of effective vendor selection and approval process contributed to the fraud at KitchenCo but this is not the most complete answer.
- c. Incorrect. Lack of effective automated controls did not cause the fraud at KitchenCo.
- d. Incorrect. Lack of segregation of duties as well as the lack of effective vendor selection but not the lack of effective automated controls contributed to the fraud at KitchenCo.
- e. **Correct.** Lack of segregation of duties as well as the lack of effective vendor selection but not the lack of effective automated controls contributed to the fraud at KitchenCo.

Review Question 5. (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.** There was a lack of effective analytical and budget review illustrated in all three cases.
- e. Incorrect. There was a lack of effective analytical and budget review illustrated in all three cases.

===== End of Section IV.

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Section V. ESOPs Help Some CPA Firms with Retention, Succession (Page 54 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 21 through 25.

Section V Learning Objectives:

1. To learn about the costs and benefits of employee stock ownership plans (ESOPs).
2. To learn about the requirements placed on, as well as the rights of, ESOP participants.

Section V Review Questions:

1. An ESOP:
 - a. Is a type of retirement plan that may provide a vehicle for succession planning.
 - b. Provides a company the flexibility to buy out its existing owners.
 - c. Allows employees to own all of the stock of the company.
 - d. A, b and c.
 - e. A and b but not c.
2. True/False? Only C corporations can have ESOPs.
 - a. True.
 - b. False.
3. True/False? ESOP participants own the shares of the employer company.
 - a. True.
 - b. False.
4. True/False? ESOPs are qualified retirement plans.
 - a. True.
 - b. False.
5. Vesting in ESOPs must follow the requirements of:
 - a. "Cliff vesting."
 - b. "Graded vesting."
 - c. Either a or b.
 - d. Neither a nor b.

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 55 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 statements are characteristic of an ESOP.
- e. Incorrect. All of these statements are characteristic of an ESOP.

Review Question 2. (Please see page 55 of *May JoA.*)

- a. Incorrect. A company does not have to be a C corporation to have an ESOP.
- b. **Correct.** Although not all legal entity types may form ESOPs, an ESOP sponsor does not have to be a C corporation.

Review Question 3. (Please see page 56 of *May JoA.*)

- a. Incorrect. ESOP participants do not own the actual shares of the company; instead the shares are held in trust for the ESOP and the ESOP participants own units in the ESOP.
- b. **Correct.** ESOP participants do not own the actual shares of the company; instead the shares are held in trust for the ESOP and the ESOP participants own units in the ESOP.

Review Question 4. (Please see page 56 of *May JoA.*)

- a. **Correct.** Like 401(k) plans, ESOPs are qualified retirement plans providing similar deferral opportunities.
- b. Incorrect. ESOPs are qualified retirement plans subject to rules common to other qualified plans.

Review Question 5. (Please see page 60 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.** Vesting in ESOPs must follow the requirements of either "cliff vesting" or "graded vesting."
- d. Incorrect. Vesting in ESOPs must follow the requirements of either "cliff vesting" or "graded vesting."

===== End of Section V.

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Section VI. Tax Updates Featuring Three Tax Columns in the May JoA
From *The Tax Adviser*: Reverse Like-kind Exchanges Get Tax Court Approval (Page 68)
Tax Practice Corner: More R&D Tax Help (Page 70), and Tax Matters (Page 72 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 26 through 30.

Section VI Learning Objectives:

1. To learn about the implications of the Tax Court's decision in *Estate of Bartell*.
2. To learn about the enhanced value of the R&D tax credit.
3. To learn about the implications of the decisions in *Summa Holdings, Inc.* and *Moss*.

Section VI Review Questions:

1. Which of the following address(es) reverse exchanges?
 - a. Statutes.
 - b. Regulations.
 - c. Both a and b.
 - d. Neither a nor b.
2. Prior to the 2016 tax year, business could use the R&D tax credit to reduce:
 - a. Regular tax.
 - b. Alternative minimum tax.
 - c. Both a and b.
 - d. Neither a nor b
3. The PATH Act allows qualifying small businesses to apply up to _____ of R&D credits against FICA.
 - a. \$50,000
 - b. \$100,000
 - c. \$150,000
 - d. \$200,000
 - e. \$250,000
4. Roth IRA owners _____ transfer domestic international sales corporation (DISC) stock to their Roth IRAs.
 - a. Can
 - b. Cannot
5. In *Moss*, Peter Moss:
 - a. Showed that his wife was unable to file an income tax
 - b. Had power of attorney over his wife.
 - c. Proved that his wife intended to file a 2008 joint return.
 - d. A, b and c.
 - e. None of the above.

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. Incorrect. The statutes do not address reverse exchanges.
- b. Incorrect. Regulations do not address reverse exchanges.
- c. Incorrect. Neither the statutes nor the regulations address reverse exchanges.
- d. **Correct.** Neither the statutes nor the regulations address reverse exchanges.

Review Question 2. (Please see page 68 of May *JoA*.)

- a. **Correct.** Prior to the 2016 tax year, businesses could use the R&D credit to only reduce regular tax.
- b. Incorrect. Prior to the 2016 tax year, businesses could not use the R&D credit to reduce AMT.
- c. Incorrect. Prior to the 2016 tax year, businesses could use the R&D credit to only reduce regular tax and not the alternative minimum tax (AMT).
- d. Incorrect. Prior to the 2016 tax year, businesses could use the R&D credit to only reduce regular tax and not the alternative minimum tax (AMT).

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

- a. Incorrect. The PATH Act allows qualifying small businesses to apply more than \$50,000 of R&D credits against FICA.
- b. Incorrect. The PATH Act allows qualifying small businesses to apply more than \$100,000 of R&D credits against FICA.
- c. Incorrect. The PATH Act allows qualifying small businesses to apply more than \$150,000 of R&D credits against FICA.
- d. Incorrect. The PATH Act allows qualifying small businesses to apply more than \$200,000 of R&D credits against FICA.
- e. **Correct.** The PATH Act allows qualifying small businesses to apply up to \$250,000 of R&D credits against FICA.

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

- a. **Correct.** Roth IRA owners can transfer DISC stock to the IRA subject to contribution limits.
- b. Incorrect. Roth IRA owners can transfer DISC stock to the IRA subject to contribution limits.

Review Question 5. (Please see page 62 of May *JoA*.)

- a. Incorrect. In *Moss*, Peter Moss did not show that his wife was unable to file an income tax return.
- b. Incorrect. In *Moss*, Peter Moss did not show that he had power of attorney over his wife.
- c. Incorrect. In *Moss*, Peter Moss did not show that his wife intended to file a 2008 joint return.
- d. Incorrect. In *Moss*, Peter Moss did not show he had not done any of the above.
- e. **Correct.** In *Moss*, Peter Moss did not show that he had done any of the above.

===== End of Section VI

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Section VII. What's Your Fraud IQ? (Page 32 of the 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*.
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 newly updated *Fraud Risk Management Guide*.
2. To learn about the five principles of fraud risk management.
3. To learn about the components of a comprehensive fraud risk management program.

Section VII Review Questions:

1. Which of the following groups issued the newly updated *Fraud Risk Management Guide*?
 - a. The Committee of Sponsoring Organizations of the Treadway Commission (COSO).
 - b. The Association of Certified Fraud Examiners (ACFE).
 - c. Both a and b jointly.
 - d. Neither a nor b.
2. The newly updated *Fraud Risk Management Guide* provides organizations with practical guidance on _____ fraud risk management programs that conform to the 2013 COSO Internal Control – Integrated Framework.
 - a. Designing
 - b. Implementing
 - c. Evaluating
 - d. Strengthening
 - e. All of the above
3. Control activities should include:
 - a. Preventative controls.
 - b. Detective controls.
 - c. Both a and b.
 - d. Neither a nor b.
4. Which controls are typically more effective at lower organizational levels?
 - a. Preventative controls.
 - b. Detective controls.
5. The fraud risk assessment should include an analysis of _____ fraud risk factors.
 - a. Internal
 - b. External
 - c. Both a and b
 - d. Neither a nr b

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

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Section VII Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see page 32 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.** COSO and ACFE jointly issued the newly updated document.
- d. Incorrect. COSO and ACFE jointly issued the newly updated document.

Review Question 2: (Please page 32 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. Incorrect. This is part of but not the most complete answer.
- d. Incorrect. This is part of but not the most complete answer.
- e. **Correct.** The document provides practical advice on designing, implementing, evaluating and strengthening fraud risk management.

Review Question 3: (Please see page 33 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.** Control activities should include both preventative as well as detective controls.
- d. Incorrect. Control activities should include both preventative as well as detective controls.

Review Question 4: (Please page 33 of June *JoA*.)

- a. **Correct.** Preventative controls are typically more effective at lower organizational levels.
- b. Incorrect. Preventative controls are typically more effective at lower organizational levels.

Review Question 5: (Please page 34 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.** The fraud risk assessment should include an analysis of both internal as well as external fraud risk factors.
- d. Incorrect. The fraud risk assessment should include an analysis of both internal as well as external fraud risk factors.

===== End of Section VII.

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Section VIII. Audit Documentation: Tips for Getting It Right (Page 38 of June JoA)

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 36 through 40.

Section VIII Learning Objectives:

1. To learn certain techniques to ensure adequate audit documentation.
2. To learn about unacceptable substitutes for required audit documentation.

Section VIII Review Questions:

1. In its examination of materially nonconforming audit engagements, the AICPA found that _____ of the engagements subject to their enhanced oversight was materially nonconforming due to a lack of adequate audit documentation.
a. 10% b. 15% c. 20% d. 25% e. 30%
2. Can auditors meet their overall audit objectives without documenting their work?
a. Yes.
b. No.
3. What has been the most common cause of noncompliance in audits that have undergone enhanced oversight reviews conducted by the AICPA peer review teams?
a. Inadequate engagement letter.
b. Inadequate documentation.
c. mistakes in classifying current portion of long-term debt.
d. Lack of auditor independence.
e. Inadequate footnote disclosure.
4. Suggestions for helping auditors avoid documentation problems include taking steps to ensure that all staff members:
a. Carefully review AU-C Section 230.
b. Undergo training on the proper use of auditing standards.
c. Receive reminders about the importance of adequate documentation during internal firm inspections.
d. A, b and c.
5. Where can auditors find free resources that help in identifying and addressing potential documentation deficiencies?
a. Calling (800) CPA HELP.
b. www.aicpa.org/documentation.

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 39 of June *JoA*.)

- a. Incorrect. The percentage of engagements found to be materially nonconforming due to a lack of adequate audit documentation was far more than 10%.
- b. Incorrect. The percentage of engagements found to be materially nonconforming due to a lack of adequate audit documentation was far more than 15%.
- c. Incorrect. The percentage of engagements found to be materially nonconforming due to a lack of adequate audit documentation was more than 20%.
- d. **Correct.** The percentage of engagements found to be materially nonconforming due to a lack of adequate audit documentation was 25%.
- e. Incorrect. The percentage of engagements found to be materially nonconforming due to a lack of adequate audit documentation was less than 30%.

Review Question 2: (Please see page 39 of June *JoA*.)

- a. Incorrect. Generally-accepted auditing standards require adequate documentation for any audit.
- b. **Correct.** Generally-accepted auditing standards require adequate documentation for any audit.

Review Question 3: (Please see page 39 of June *JoA*.)

- a. Incorrect. This is not as common as inadequate documentation.
- b. **Correct.** Inadequate documentation is the most common cause of noncompliance in audits that have undergone enhanced oversight review conducted by the AICPA peer review team.
- c. Incorrect. This is not as common as inadequate documentation.
- d. Incorrect. This is not as common as inadequate documentation.
- e. Incorrect. This is not as common as inadequate documentation.

Review Question 4: (Please see page 40 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. Incorrect. This is part of but not the most complete answer.
- d. **Correct.** Each one of these suggestions would be helpful in helping auditors avoid documentation problems.

Review Question 5: (Please see page 42 of June *JoA*.)

- a. Incorrect. The AICPA offers free resources that help in identifying and addressing potential documentation deficiencies at www.aicpa.org/documentation.
- b. **Correct.** The AICPA offers free resources that help in identifying and addressing potential documentation deficiencies at www.aicpa.org/documentation.

===== End of Section VIII.

Section IX. U.S. Tax and FASB's New Paradigm for Revenue Recognition (Page 62 of June *JoA*)

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 the financial tax reporting of FASB's ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606).
2. To learn about the potential federal income tax implications of the new standard.

Section IX Review Questions:

1. As of June 2017, the current effective date for FASB Accounting Standards Codification (ASC) Topic 606 for non-public entities is for annual periods in fiscal years beginning after:
 - a. June 15, 2017.
 - b. December 15, 2017.
 - c. June 15, 2018.
 - d. December 15, 2018.
 - e. June 15, 2019.
2. FASB's goals for ASC Topic Topic 606 include:
 - a. Streamlining statement preparation and reducing essential guidance.
 - b. Improving comparability across entities, industries, capital markets, and jurisdictions.
 - c. Offering a more robust revenue framework.
 - d. Removing inconsistencies and weaknesses in the prior revenue standards.
 - e. All of the above.
3. The changes associated with ASC Topic 606 have implications for:
 - a. Financial reporting.
 - b. Tax filings.
 - c. Both a and b.
 - d. Neither a nor b.
4. Does ASC Topic 606 require that the transaction price be allocated to each performance obligation based on relative stand-alone selling prices?
 - a. Yes.
 - b. No.
5. Adoption of ASC Topic 606 may lead to substantial changes in:
 - a. Deferred tax assets.
 - b. Deferred tax liabilities.
 - c. Both a and b.
 - d. Neither a nor b.

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

Section IX Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see page 63 of June *JoA*.)

- a. Incorrect. Although public entities are required to adopt Topic 606 earlier, the effective date for non-public entities' annual reports is for fiscal years beginning after December 15, 2018.
- b. Incorrect. Although public entities are required to adopt Topic 606 earlier, the effective date for non-public entities' annual reports is for fiscal years beginning after December 15, 2018.
- c. Incorrect. Although public entities are required to adopt Topic 606 earlier, the effective date for non-public entities' annual reports is for fiscal years beginning after December 15, 2018.
- d. **Correct.** The effective date for non-public entities' annual reports is for fiscal years beginning after December 15, 2018.
- e. Incorrect. The effective date for non-public entities' annual reports is for fiscal years beginning after December 15, 2018.

Review Question 2: (Please see page 63 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. 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 aspirations represents a goal of the FASB for ASC Topic 606.

Review Question 3: (Please see page 64 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.** Changes in ASC Topic 606 have implications for both financial reporting as well as for tax filings.
- d. Incorrect. Changes in ASC Topic 606 have implications for both financial reporting as well as for tax filings.

Review Question 4: (Please see page 66 of June *JoA*.)

- a. **Correct.** The standard requires that the transaction price be allocated to each performance obligation based on relative stand-alone selling prices.
- b. Incorrect. The standard requires that the transaction price be allocated to each performance obligation based on relative stand-alone selling prices.

Review Question 5: (Please see page 70 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.** New regulations will require existing timing differences to be reviewed to address current and future changes and to capture all required documentation; this may lead to substantial changes in both deferred tax assets as well as deferred tax liabilities.
- d. Incorrect. New regulations will require existing timing differences to be reviewed to address current and future changes and to capture all required documentation; this may lead to substantial changes in both deferred tax assets as well as deferred tax liabilities.

End of section IX

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Section X. Tax Updates Featuring Three Tax Columns:
From *The Tax Adviser*: The Growing Trend of Soda Taxes (Page 72)
Tax Practice Corner: Closed Years Are Fair Game in Examinations of NOL Carryovers (P. 74), and Tax Matters (Page 76.)

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 about the nature of the newer soda taxes and how they differ from older soda taxes.
2. To learn how audits involving taxpayers with net operating loss and other carryforwards can reach back past the otherwise applicable statute of limitations.
3. To learn about recent rulings in *Robb Evans & Associates, LLC* and *Shaffran*.

Section X Review Questions:

1. The newer soda taxes:
 - a. Are primarily aimed at altering consumer behavior.
 - b. Are generally imposed to collect revenue and to finance specific projects or programs.
 - c. Both a and b.
 - d. Neither a nor b.
2. A net operating loss can be carried back ____ year(s) and carried forward ____ years.
 - a. 1...5
 - b. 2...5
 - c. 2...10
 - d. 2...15
 - e. 2...20
3. In the absence of NOLs, the usual statute of limitations for returns is normally ____ years.
 - a. One
 - b. Two
 - c. Three
 - d. Four
 - e. Five
4. Can the existence of an NOL result in a tax audit reaching back past the otherwise applicable statute of limitations?
 - a. Yes.
 - b. No.
5. In *Shaffran*, the taxpayer was a(n) _____ of the business.
 - a. Employee
 - b. Officer
 - c. Director
 - d. All of the above
 - e. None of the above

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 72.)

- a. **Correct.** Newer soda taxes are primarily aimed at altering consumer behavior – specifically to reduce consumption of sugar which is widely considered to be the cause of the unhealthy obesity among many in our population. Such obesity may lead to diabetes, heart attacks and strokes.
- b. **Incorrect.** This is a characteristic of the older soda taxes going back 50 years or more.
- c. **Incorrect.** Newer taxes are primarily aimed at altering consumer behavior but not aimed at financing specific projects.
- d. **Incorrect.** Newer taxes are primarily aimed at altering consumer behavior but not aimed at financing specific projects.

Review Question 2. (Please see page 72.)

- a. **Incorrect.** The time horizons are greater than these parameters.
- b. **Incorrect.** The time horizons are greater than these parameters.
- c. **Incorrect.** The time horizons are greater than these parameters.
- d. **Incorrect.** The time horizons are greater than these parameters.
- e. **Correct.** A net operating loss can normally be carried back two years and carried forward 20 years.

Review Question 3. (Please see page 74.)

- a. **Incorrect.** The statute of limitations is normally greater than one year.
- b. **Incorrect.** The statute of limitations is normally greater than two years.
- c. **Correct.** The statute of limitations is normally three years.
- d. **Incorrect.** The statute of limitations is normally less than four years.
- e. **Incorrect.** The statute of limitations is normally less than five years.

Review Question 4. (Please see pages 74)

- a. **Correct.** The existence of an NOL can result in tax audits reaching back past the otherwise applicable statute of limitations.
- b. **Incorrect.** The existence of an NOL can result in tax audits reaching back past the otherwise applicable statute of limitations.

Review Question 5. (Please see page 78.)

- a. **Incorrect.** The taxpayer was not an employee.
- b. **Incorrect.** The taxpayer was not an officer.
- c. **Incorrect.** The taxpayer was not a director.
- d. **Incorrect.** The taxpayer was neither an employee, an officer nor director.
- e. **Correct.** The taxpayer was neither an employee, an officer nor director.

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