

**"It ain't what you don't know that gets you into trouble.
It's what you know for sure that just ain't so."**

...Mark Twain

**Supplementary Study Guide to Accompany the
Quarterly CPE Exam on
Topics Addressed in the *Journal of Accountancy*
Fourth Quarter (October – December), 2017 (AEA Course # 1704)**

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 – IV Relate to the *Journal of Accountancy* of October 2017

Section I. News Digest (Page 9)

Section II. Exploring the Estate Tax: Part 1 (Page 20)

Section III. Tax Update Featuring Three Tax Columns:
From *The Tax Adviser*: Accounting Method Changes Make Closed Years Relevant (P. 46)
Tax Practice Corner: Wellness Program Benefits: Tax-Free or Not? (Page 56) and
Tax Matters (Page 58)

Sections IV – VII Relate to the *Journal of Accountancy* of November 2017

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Section VII. Tax Updates Featuring Two Tax Columns:
From *The Tax Adviser*: When Will I Get My Refund? (Page 58)
Tax Practice Corner: Trading Virtual Currencies, and Tax Matters (Page 64)

Section VIII Relates to the *Journal of Accountancy* of December 2017

Section VIII. Lessons to Learn from SEC Accounting and Auditing Enforcements (Page 26)

Section IX. How to Audit Fair Value Measurements (Page 32)

Section X. Tax Updates Featuring Two Tax Columns:
From *The Tax Adviser*: S Corp. Basis and Why It's Important (Page 59) and
Tax Matters (Page 64)

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

Section I. News Digest (Page 9 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 about SAS No. 133, *Auditor Involvement with Exempt Offering Documents*.
2. To learn about the report on PCAOB inspection findings of 115 audits by 75 audit firms from the 2016 audit cycle.

Section I Review Questions:

1. SAS No. 133 issued by the AICPA Auditing Standards Board:
 - a. Establishes when an auditor is involved with an exempt offering document.
 - b. Describes the procedures that an auditor is required to follow when involved in an exempt offering document.
 - c. Both a and b.
 - d. Neither a nor b.
2. SAS No. 133 _____ any previous guidance.
 - a. Amends
 - b. Supersedes
 - c. Both a and b
 - d. Neither a nor b
3. According to a recent survey by the AICPA Peer Review team, which of the following would likely have a higher nonconformity rate in single audits?
 - a. Audit firms that performed 11 or more single audits.
 - b. Audit firms that performed fewer than 11 single audits.
4. Which of the following factors contributed to the recent 10-year high in the AICPA Personal Financial Satisfaction Index?
 - a. Strong stock market.
 - b. Job openings.
 - c. Decreased inflation.
 - d. All of the above.
5. Mark Astrinos, CPA/PFS, advised investors to:
 - a. Increase their allocations to equity investments.
 - b. Decrease their allocations to equity investments.
 - c. Review their asset allocation to be sure that they're managing the risk of their portfolio.
 - d. Get out of stocks.
6. The PCAOB found an increase in deficiencies among _____ in its 2016 audit cycle inspection of audits of brokers and dealers.
 - a. Audit firms
 - b. Audits
 - 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 9 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.** SAS No. 133 both establishes when an auditor is involved with, and describes the procedures an auditor is required to follow when involved in an exempt offering document.
- d. Incorrect. SAS No. 133 both establishes when an auditor is involved with, and describes the procedures an auditor is required to follow when involved in an exempt offering document.

Review Question 2. (Please see page 9 of October *JoA*.)

- a. Incorrect. SAS no. 133 does not amend any previous guidance.
- b. Incorrect. SAS no. 133 does not supersede any previous guidance.
- c. Incorrect. SAS no. 133 neither amends nor supersedes any previous guidance.
- d. **Correct.** SAS no. 133 neither amends nor supersedes any previous guidance

Review Question 3: (Please see page 10 of October *JoA*.)

- a. Incorrect. Firms that perform at least 11 single audits had lower nonconformity rates than others.
- b. **Correct.** Firms that perform fewer than 11 single audits had higher nonconformity rates than others.

Review Question 4. (Please see page 11 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.** A better stock and job market as well as decreased inflation all contribute to the PFSI.

Review Question 5. (Please see page 11 of October *JoA*.)

- a. Incorrect. Astrinos did not recommend increasing allocations to stocks after the rise in prices.
- b. Incorrect. Astrinos did not recommend decreasing allocations to stocks after the rise in prices.
- c. **Correct.** Rather than to take drastic action, Astrinos simply recommends taking a look at ones asset allocation to be sure that, after a big rise in stock prices, the equity allocation still makes sense.
- d. Incorrect. Astrinos did not recommend selling all of ones stocks after the rise in prices.

Review Question 6. (Please see page 12 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 PCAOB's survey found an increase in deficiencies of both audits and audit firms.
- d. Incorrect. The PCAOB's survey found an increase in deficiencies of both audits and audit firms.

=====End of Section I.

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Section II. Exploring the Estate Tax: Part 1 (Page 20 of October 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 10.

Section II Learning Objectives:

1. To learn certain basic concepts of estate taxes.
2. To learn how to calculate the tentative estate tax, the unified credit and net estate tax liability.

Section II Review Questions:

1. The estate of a single taxpayer dying in 2017 would be subject to estate tax for any portion exceeding:
 - a. \$1,000,000.
 - b. \$2,141,800.
 - c. \$3,348,200.
 - d. \$5,490,000.
 - e. \$10,980,000.
2. The gross estate includes:
 - a. All real property owned.
 - b. All personal property owned.
 - c. Property situated outside of the United States.
 - d. Intangible property owned.
 - e. All of the above.
3. Gifts made within ____ year(s) of a decedent's death are generally included in the gross estate.
 - a. One
 - b. Two
 - c. Three
 - d. Four
 - e. Five
4. Generally, _____ should be sold before death.
 - a. Highly-appreciated property
 - b. Property worth considerably less than its cost basis
 - c. Both a and b
 - d. Neither a nor b
5. Portability allows a surviving spouse to add ____ of the deceased spousal unused exclusion amount (DSUE) to his or her own basic exclusion amount.
 - a. 100%
 - b. 75%
 - c. 60%
 - d. 50%
 - e. 30%

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 21 of October *JoA*.)

- a. Incorrect. The basic exclusion amount has been increased to an amount greater than this.
- b. Incorrect. The basic exclusion amount has been increased to an amount greater than this.
- c. Incorrect. The basic exclusion amount has been increased to an amount greater than this.
- d. **Correct.** The basic exclusion amount has been increased to \$5,490,000.
- e. Incorrect. The basic exclusion amount is \$5,490,000 per person.

Review Question 2. (Please see page 21 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. Incorrect. This is part of but not the most complete answer.
- e. **Correct.** The gross estate includes all property, real or personal, tangible or intangible, wherever situated.

Review Question 3. (Please see page 22 of October *JoA*.)

- a. Incorrect. The look-back period for including gifts made is more than one year.
- b. Incorrect. The look-back period for including gifts made is more than two years.
- c. **Correct.** The look-back period for including gifts made is three years. The gross estate includes any interest in property transferred by the decedent during the three-year period ending on the date of the decedent's death.
- d. Incorrect. The look-back period for including gifts made is less than four years.

Review Question 4. (Please see page 23 of October *JoA*.)

- a. Incorrect. Highly-appreciated property should not be sold before death. In the estate, the appreciation will generally avoid capital gain tax and the inheritor will usually get the stepped-up basis.
- b. **Correct.** If property that is worth less than its basis is sold before the owner's death, the owner will normally recognize a loss shown on his or her income tax return.
- c. Incorrect. Letting highly-appreciated property go into the estate eliminates any capital gain tax liability; selling "loss" assets results in recognizing a loss that would be lost if the property went into the estate.
- d. Incorrect. Letting highly-appreciated property go into the estate eliminates any capital gain tax liability; selling "loss" assets results in recognizing a loss that would be lost if the property went into the estate.

Review Question 5. (Please see page 24 of October *JoA*.)

- a. **Correct.** A surviving spouse can add 100% of the deceased spousal unused exclusion amount (PSUE) to his or her own basic exclusion amount if applicable requirements are met.
- b. Incorrect. A surviving spouse can add 100% of the deceased spousal unused exclusion amount (PSUE) to his or her own basic exclusion amount if applicable requirements are met.
- c. Incorrect. A surviving spouse can add 100% of the deceased spousal unused exclusion amount (PSUE) to his or her own basic exclusion amount if applicable requirements are met.
- d. Incorrect. A surviving spouse can add 100% of the deceased spousal unused exclusion amount (PSUE) to his or her own basic exclusion amount if applicable requirements are met.
- e. Incorrect. A surviving spouse can add 100% of the deceased spousal unused exclusion amount (PSUE) to his or her own basic exclusion amount if applicable requirements are met.

=====End of Section II.

Section III. Tax Update Featuring Three Tax Columns:

From *The Tax Adviser: Accounting Method Changes Make Closed Years Relevant* (P. 46)

Tax Practice Corner: Wellness Program Benefits: Tax-Free or Not? (Page 56) and

Tax Matters (Page 58 of October *JoA*)

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 how direct changes of accounting methods can practically affect the limitation period.
2. To learn about the taxation of wellness programs.
3. To learn how final regulations affect premium tax credit issues.
4. To learn how *Jacobs* affects taxation of wellness programs.

Section III Review Questions:

1. Under Sec. 6501, the IRS generally has ____ years (with certain exceptions) to assess any additional tax owed.
 - a. Two
 - b. Three
 - c. Four
 - d. Five
 - e. Six
2. Wellness programs _____ tax-free to an employee.
 - a. Are always
 - b. Are never
 - c. Can be
3. Which of the following employers' self-funded health plans is / are taxable to the employees?
 - a. An employer's self-funded health plan that does not involve insurance risk to the employer or employee.
 - b. An employer's self-funded health that distributes amounts to employees for wellness program participation that are much larger than the post-tax contributions to the program.
 - c. Either a or b.
 - d. Neither a nor b.
4. Taxpayers who receive the benefit of advance premium credit payments are _____ to file a tax return.
 - a. Required
 - b. Only encouraged but not required
5. Generally, deductions for food and beverages allowable under Soc. 274(a) _____ generally limited by Sec. 274(n)(1) to 50% of the expense amount.
 - a. Are
 - b. Are not

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 46 of October *JoA*.)

- a. Incorrect. The limitation period is more than two years.
- b. **Correct.** Section 6501 prescribes a three-year limitation for assessing any additional tax owed.
- c. Incorrect. The limitation period is less than four years.
- d. Incorrect. The limitation period is less than five years.
- e. Incorrect. The limitation period is less than six years.

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

- a. Incorrect. Wellness programs are not always tax-free to the employee.
- b. Incorrect. Wellness programs are sometimes tax-free to the employee.
- c. **Correct.** Wellness programs can be tax-free to the employee depending on how they are designed and what benefits are offered.

Review Question 3: (Please see page 57 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.** An employer's self-funded health plan is taxable to the employee if it either distributes amounts to employees for wellness program participation that are much larger than the post-tax contribution to the program, or does not involve insurance risk to the employer or employee.
- d. Incorrect. An employer's self-funded health plan is taxable to the employee if it either distributes amounts to employees for wellness program participation that are much larger than the post-tax contribution to the program, or does not involve insurance risk to the employer or employee.

Review Question 4. (Please see page 59 of October *JoA*.)

- a. **Correct.** Any taxpayer who receives the benefit of advance premium credit payments is required to file a tax return.
- b. Incorrect. Any taxpayer who receives the benefit of advance premium credit payments is required to file a tax return. They are not merely encouraged to file.

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

- a. **Correct.** Deductions for food and beverages allowable under Sec. 274(a) are generally limited by Sec. 274(n)(1) to 50% of the expense amount.
- b. Incorrect. Deductions for food and beverages allowable under Sec. 274(a) are generally limited by Sec. 274(n)(1) to 50% of the expense amount.

-----End of Section III.

Section IV. Four Strategies for Efficient, Effective Audit Documentation (Page 26 of Nov. JoA)

Section IV Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*; consider watching this youtube video on audit documentation: https://www.youtube.com/watch?v=Ks_EdPqm3x0
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 Objective:

1. To learn about four strategies for efficient, effective audit documentation.

Section IV Review Questions:

1. Strong audit documentation:
 - a. Enables the auditor to comply with AU-C Section 230, *Audit Documentation*.
 - b. Can result in a more efficient audit engagement.
 - c. Both a and b.
 - d. Neither a nor b.
2. Mark Koziel recommends that working papers cover:
 - a. The nature, extent and timing of audit procedures.
 - b. The results of the auditor's procedures.
 - c. Any significant findings, issues or professional judgments.
 - d. A, b and c.
 - e. A and b but not c.
3. According to Mark Koziel, does every audit procedure need its own working paper?
 - a. Yes.
 - b. No.
4. Should next year's audit team review the prior year's documentation before designing their audit plan?
 - a. Yes.
 - b. No.
5. Good documentation will aid auditors in:
 - a. Internal inspections.
 - b. Peer reviews.
 - c. Regulatory inspections.
 - d. A, b and c.
 - e. A and b but not c.

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

Section IV Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see page 27 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.** Strong audit documentation can both enable the auditor to comply with AU-C Section 230, *Audit Documentation* and also result in a more efficient audit engagement.
- d. Incorrect. Strong audit documentation can both enable the auditor to comply with AU-C Section 230, *Audit Documentation* and also result in a more efficient audit engagement.

Review Question 2. (Please see page 27 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.** Mark Koziel recommends that working papers cover the nature, extent, timing as well as the results and significant findings, issues, or professional judgments associated with audit procedures.
- e. Incorrect. Mark Koziel recommends that working papers cover the nature, extent, timing as well as the results and significant findings, issues, or professional judgments associated with audit procedures.

Review Question 3. (Please see page 27 of November *JoA*.)

- a. Incorrect. It is not necessary to prepare a working paper for every audit procedure.
- b. **Correct.** Doing away with unnecessary client documentation in the file increases efficiency. The nature, timing, extent, and results of many procedures can be documented best by simply adding descriptive sentences to the audit program.

Review Question 4. (Please see page 27 of November *JoA*.)

- a. **Correct.** Reviewing the prior year's audit documentation can alert the audit team to things that need to be reviewed.
- b. Incorrect. The next year's audit team should review the prior year's audit documentation but this doesn't mean that they should simply employ the identical audit program again.

Review Question 5. (Please see page 27 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.** Good documentation will aid auditors in internal inspections, peer reviews as well as in regulatory inspections.
- e. Incorrect. Good documentation will aid auditors in internal inspections, peer reviews as well as in regulatory inspections.

===== End of Section IV.

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Section V. Improving Internal Control over Segment Reporting (Page 36 of November JoA)

Section V Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*; consider watching this youtube video on segment reporting: <https://www.youtube.com/watch?v=5mrQH7uqk3M>
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 goals of ASC Topic 280, *Segment Reporting*.
2. To learn about the requirements of ASC Topic 280, *Segment Reporting*.

Section V Review Questions:

1. PowerSecure settled SEC allegations of failure to identify and report its segments (as required by ASC Topic 280) after PowerSecure disclosed _____ reportable segment(s).
 - a. One
 - b. Two
 - c. Three
 - d. Four
 - e. Five
2. The chief operating decision-maker evaluates the entities operating results to:
 - a. Assess performance.
 - b. Allocate resources.
 - c. Both a and b.
 - d. Neither a nor b.
3. PACCAR settled SEC allegations of failure to identify and report its segments (as required by ASC Topic 280) after PACCAR disclosed _____ reportable segment(s).
 - a. One
 - b. Two
 - c. Three
 - d. Four
 - e. Five
4. The SEC has stated that gross profit _____ sufficient to meet its requirement of discrete financial information.
 - a. Is
 - b. Is not
5. ASC Topic 280 applies to _____ entities.
 - a. Public
 - b. Non-public
 - c. Both a and 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 36 of November *JoA*.)

- a. **Correct.** PowerSecure disclosed only one reportable segment when it should have reported multiple segments.
- b. **Incorrect.** PowerSecure disclosed only one reportable segment when it should have reported multiple segments.
- c. **Incorrect.** PowerSecure disclosed only one reportable segment when it should have reported multiple segments.
- d. **Incorrect.** PowerSecure disclosed only one reportable segment when it should have reported multiple segments.
- e. **Incorrect.** PowerSecure disclosed only one reportable segment when it should have reported multiple segments.

Review Question 2. (Please see page 37 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 CODM should evaluate the entity's operating results to both assess performance and to allocate resources.
- d. **Incorrect.** The CODM should evaluate the entity's operating results to both assess performance and to allocate resources.

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

- a. **Correct.** While internal forecasts reported three separate segments, PACCAR combined its truck and parts results in a single segment in SEC and stockholder reports.
- b. **Incorrect.** While internal forecasts reported three separate segments, PACCAR combined its truck and parts results in a single segment in SEC and stockholder reports.
- c. **Incorrect.** While internal forecasts reported three separate segments, PACCAR combined its truck and parts results in a single segment in SEC and stockholder reports.
- d. **Incorrect.** While internal forecasts reported three separate segments, PACCAR combined its truck and parts results in a single segment in SEC and stockholder reports.
- e. **Incorrect.** While internal forecasts reported three separate segments, PACCAR combined its truck and parts results in a single segment in SEC and stockholder reports.

Review Question 4: (Please see page 40 of November *JoA*.)

- a. **Correct.** The SEC has stated that gross profits is sufficient for meeting the standard of showing profit or loss.
- b. **Incorrect.** The SEC has stated that gross profits is sufficient for meeting the standard of showing profit or loss.

Review Question 5: (Please see page 37 of November *JoA*.)

- a. **Correct.** ASC Topic 280 applies only to public entities.
- b. **Incorrect.** ASC Topic 280 does not apply to private entities.
- c. **Incorrect.** ASC Topic 280 applies to public entities but not to private entities.
- d. **Incorrect.** ASC Topic 280 applies to public entities but not to private entities.

===== End of Section V.

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Section VI. 2017 Exploring the Estate Tax: Part 2 (Page 50 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*. Consider watching this youtube video on QTIP and A/B trusts: <https://www.youtube.com/watch?v=7izWk0hizbU>
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 certain basic estate tax planning techniques.
2. To learn how to use the marital deduction and certain types of trusts.

Section VI Review Questions:

1. Which of the following would generally qualify for the marital deduction?
 - a. Terminable interests in property.
 - b. Nonterminable interests in property.
 - c. Both a and b.
 - d. Neither a nor b.
2. Effective use of portability provisions allows a married couple dying in 2017 to exclude up to _____ of estate assets.
 - a. \$0
 - b. \$2,000,000
 - c. \$5,490,000
 - d. \$10,980,000
 - e. \$12,000,000
3. Assets transferred to a family trust are _____ interests.
 - a. Terminable
 - b. Nonterminable
4. QTIP trusts should be funded with assets:
 - a. With a stable value or with little appreciation potential.
 - b. With assets that possess the potential or likelihood of significant appreciation.
5. In a qualified personal residence trust:
 - a. The entire value of the property (at date of death) is included in the grantor's gross estate if the grantor dies within the fixed term.
 - b. The remainder beneficiaries get a stepped-up income tax basis in the property at the grantor's death.

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 51 of November *JoA*.)

- a. Incorrect. Because the surviving spouse's lifetime interest terminates upon death, it will not qualify for the marital deduction.
- b. **Correct.** Because the surviving spouse's lifetime interest does not terminate upon death, it will qualify for the marital deduction.
- c. Incorrect. Only interests that do not terminate upon death qualify for the marital deduction.
- d. Incorrect. Only interests that do not terminate upon death qualify for the marital deduction.

Review Question 2. (Please see page 52 of November *JoA*.)

- a. Incorrect. In 2017, married couples can exclude a significant amount of estate assets.
- b. Incorrect. In 2017, married couples can exclude much more than \$2,000,000 of estate assets.
- c. Incorrect. In 2017, each married spouse can exclude \$5,490,000 of estate assets.
- d. **Correct.** In 2017, each married spouse can exclude \$5,490,000 of estate assets, and with effective use of portability provisions, their combined exclusion can be as much as \$10,980,000.
- e. Incorrect. In 2017, each married spouse can exclude \$5,490,000 of estate assets, and with effective use of portability provisions, their combined exclusion can be as much as \$10,980,000 but not \$12,000,000.

Review Question 3. (Please see page 52 of November *JoA*.)

- a. **Correct.** Only terminable interests are placed in family trusts.
- b. Incorrect. Only terminable interests are placed in family trusts.

Review Question 4. (Please see page 54 of November *JoA*.)

- a. Incorrect. Stable value assets would not benefit from the potential for a stepped-up basis upon the survivor's death.
- b. **Correct.** QTIP trusts should be funded with assets with the potential of significant appreciation because QTIP assets will get a stepped-up basis upon the survivor's death.

Review Question 5. (Please see page 55 of November *JoA*.)

- a. **Correct.** In a qualified residence trust, the entire value of the property at date of death is included in the grantor's gross estate if the grantor dies within the fixed term.
- b. Incorrect. In a qualified residence trust, the remainder beneficiaries do not get a stepped-up income tax basis in the property at the grantor's death.

===== End of Section VI

Section VII. Tax Updates Featuring Two Tax Columns:

From *The Tax Adviser: When Will I Get My Refund?* (Page 58)

Tax Practice Corner: Trading Virtual Currencies (Page 60), and Tax Matters (Page 64)

Section VII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives stated below*. Consider watching this youtube video on bitcoin and taxes: https://www.youtube.com/watch?v=XBzVXkr6_Fo
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 the time limitations placed on filing claims for refunds or credits.
2. To learn the basics of taxation of transactions involving trading virtual currencies.
3. To learn the court decisions in certain significant taxes cases.

Section VII Review Questions:

1. Which of the following may provide an exception to the usual time limits prescribed for claiming a credit or refund?
 - a. Being financially disabled.
 - b. Having claims related to the deductibility of bad debts or worthless securities.
 - c. Either a or b.
 - d. Neither a nor b.
2. Which of the following is (are) “specified securities?”
 - a. Stocks.
 - b. Virtual currencies.
 - c. Both a and b.
 - d. Neither a nor b.
3. Which of the following is (are) deductible?
 - a. Insurance premiums.
 - b. Amounts set aside as a loss reserve or self-insurance.
 - c. Both a and b.
 - d. Neither a nor b.
4. The *Owens* case demonstrates that a bad debt deduction requires:
 - a. Conducting an active trade or business.
 - b. Showing a profit motive.
 - c. Proving that debt was worthless.
 - d. A, b and c.
 - e. A and b but not c.
5. The *Losantiville Country Club* case demonstrates that a profit motive _____ required to recognize losses from nonmember sales.
 - a. Is
 - b. Is not

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 58 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.** Either being financially disabled or having claims related to the deductibility of bad debts or worthless securities may provide an exception to the usual time limit prescribed for claiming a credit or refund.
- d. Incorrect. Either being financially disabled or having claims related to the deductibility of bad debts or worthless securities may provide an exception to the usual time limit prescribed for claiming a credit or refund.

Review Question 2: (Please see page 61 of November *JoA*.)

- a. **Correct.** Stocks are specified securities and as such, their prices are reported daily and are widely available.
- b. Incorrect. Virtual currencies are not specified securities and therefore lack tax guidance that would ease tax accounting and reporting of basis in trades.
- c. Incorrect. Stocks are specified securities but virtual currencies are not. The difference is that stock transactions are reported while virtual currency transactions are not reported.
- d. Incorrect. Stocks are specified securities but virtual currencies are not. The difference is that stock transactions are reported while virtual currency transactions are not reported.

Review Question 3: (Please see page 66 of November *JoA*.)

- a. **Correct.** Insurance premiums may be deductible.
- b. Incorrect. Amounts set aside as a loss reserve or self insurance are not deductible.
- c. Incorrect. Insurance premiums may be deductible while amounts set aside as a loss reserve or self insurance are not deductible.
- d. Incorrect. Insurance premiums may be deductible while amounts set aside as a loss reserve or self insurance are not deductible.

Review Question 4: (Please see page 67 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.** The *Owens* case demonstrates that a bad debt deduction requires conducting an active trade or business, showing a profit motive as well as proving that the debt was worthless.
- e. Incorrect. The *Owens* case demonstrates that a bad debt deduction requires conducting an active trade or business, showing a profit motive as well as proving that the debt was worthless.

Review Question 5: (Please see page 69 of November *JoA*.)

- a. **Correct.** The *Losantiville Country Club* case demonstrates that a profit motive is required to recognize losses from nonmember sales.
- b. Incorrect. The *Losantiville Country Club* case demonstrates that a profit motive is required to recognize losses from nonmember sales.

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

Section VIII. Lessons to Learn from SEC Accounting and Auditing Enforcements (Page 26)

Section VIII Assignment:

1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives*.
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 where standard accounting and auditing practices have failed.
2. To learn how to best prevent violations of standard accounting and auditing practices.

Section VIII Review Questions:

1. Accountants can use the findings published in the related *Journal of Accountancy* article to _____ violations of standard accounting and auditing practices.
 - a. Deter or prevent
 - b. Detect
 - c. Correct
 - d. A, b and c
 - e. A and b but not c
2. The majority of the 1,563 SEC accounting and auditing enforcement actions for the years 2008 – 2014 were classified as:
 - a. Administrative
 - b. Fraud.
3. Which of the five best practices most closely relates to the 2014 SEC case involving several real estate investment trusts and their executives and advisers? (Intentionally reduced font sizes)
 - a. Clearly define the external audit mission, objectives and framework, and evaluate any internal audit practices relevant to those objectives.
 - b. Make sure the auditor/client relationship is strong and open to full communication and that everything that should be communicate is in fact communicated.
 - c. Avoid a same-as-last-year approach to analyze accounts and transactions.
 - d. Focus on high-risk and potential trouble areas, and reduce time and effort spent on low-risk areas.
 - e. Make use of software that enables proper document sharing between auditor and client, which will effectively detect errors or omissions in financial data and will analyze inconsistencies or unexpected variations.
4. Which of the five best practices most closely relates to the 2014 SEC case involving bribes paid by a middleman working for subsidiaries of a multinational company, proper controls and monitoring functions could have detected a sham 10-year distributorship?
 - a. Clearly define the external audit mission, objectives and framework, and evaluate any internal audit practices relevant to those objectives.
 - b. Make sure the auditor/client relationship is strong and open to full communication and that everything that should be communicate is in fact communicated.
 - c. Avoid a same-as-last-year approach to analyze accounts and transactions.
 - d. Focus on high-risk and potential trouble areas, and reduce time and effort spent on low-risk areas.
 - e. Make use of software that enables proper document sharing between auditor and client, which will effectively detect errors or omissions in financial data and will analyze inconsistencies or unexpected variations.
5. Which of the five best practices most closely relates to the 2014 SEC case involving a bank's false and misleading disclosures of past-due loans and loan losses in 2009 and 2010?
 - a. Clearly define the external audit mission, objectives and framework, and evaluate any internal audit practices relevant to those objectives.
 - b. Make sure the auditor/client relationship is strong and open to full communication and that everything that should be communicate is in fact communicated.
 - c. Avoid a same-as-last-year approach to analyze accounts and transactions.
 - d. Focus on high-risk and potential trouble areas, and reduce time and effort spent on low-risk areas.
 - e. Make use of software that enables proper document sharing between auditor and client, which will effectively detect errors or omissions in financial data and will analyze inconsistencies or unexpected variations.

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 27 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.** Accountants can use the findings to deter, prevent, detect, and correct violations.
- e. Incorrect. Accountants can use the findings to deter, prevent, detect, and correct violations.

Review Question 2: (Please page 27 of December *JoA*.)

- a. **Correct.** The majority of the 1,563 SEC accounting and auditing enforcement cases were of an administrative nature.
- b. Incorrect. Approximately 12% of the 1,563 SEC accounting and auditing enforcement cases were classified as fraud.

Review Question 3: (Please see page 28 of December *JoA*.)

- a. Incorrect. While an important principle, there is another principle more relevant to this case.
- b. **Correct.** In the case dealing with the REIT, the internal control failures demonstrate the need for clear communications as well as affirmative actions and protections to force detection and disclosure of compensation.
- c. While an important principle, there is another principle more relevant to this case.
- d. While an important principle, there is another principle more relevant to this case.
- e. While an important principle, there is another principle more relevant to this case.

Review Question 4. (Please see page 29 of December *JoA*.)

- a. Incorrect. While an important principle, there is another principle more relevant to this case.
- b. Incorrect. While an important principle, there is another principle more relevant to this case.
- c. Incorrect. While an important principle, there is another principle more relevant to this case.
- d. **Correct.** This case dealt with bribes paid by a for activities unrelated to legitimate activities of the company. The sham arrangement could have been uncovered with proper controls and monitoring.
- e. Incorrect. While an important principle, there is another principle more relevant to this case.

Review Question 5: (Please page 28 of December *JoA*.)

- a. **Correct.** This case dealt with a bank with deficient underwriting and loan monitoring controls. Effective internal control practices could have ensured that controls were in place to prevent such activities.
- b. While an important principle, there is another principle more relevant to this case.
- c. While an important principle, there is another principle more relevant to this case.
- d. While an important principle, there is another principle more relevant to this case.
- e. While an important principle, there is another principle more relevant to this case.

===== End of Section VIII.

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Section IX. How to Audit Fair Value Measurements (Page 32)

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 how a new framework for valuation professionals can help CPAs audit fair value measurements.
2. To learn how the Mandatory Performance Framework (MPF) can assist with documentation of fair value measurement.

Section IX Review Questions:

1. Who developed the Certified in Entity and Intangibles Valuation (CEIV) credential?
 - a. The AICPA.
 - b. The American Society of Appraisers, the Royal Institution of Chartered Surveyors, et al.
 - c. Both a and b.
 - d. Neither a nor b.
2. Valuation professionals who _____ earned the CEIV credential are required to adhere to the MPF and the application of the MPF when they perform their relevant work.
 - a. Have
 - b. Have not
 - c. Either a or b
 - d. Neither a nor b
3. When _____ prepares the valuation model, management is responsible for providing the information that will be used as the model's inputs.
 - a. A retained third-party valuation consultant
 - b. Management
 - c. Either a or b
 - d. Neither a nor b
4. The MPF _____ that the significant component used to support valuation be included in the valuation report.
 - a. Encourages but does not require
 - b. Requires
5. Back-testing is similar in _____ to the requirements established by Topic 855, *Subsequent Events*.
 - a. Purpose
 - b. Application
 - 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 33 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.** The AICPA, in partnership with the ASA, the Royal Institution of Chartered Surveyors and others developed the CEIV credential program.
- d. Incorrect. The AICPA, in partnership with the ASA, the Royal Institution of Chartered Surveyors and others developed the CEIV credential program.

Review Question 2: (Please see page 33 of December *JoA*.)

- a. **Correct.** Valuation professionals who have earned the CEIV credential are required to adhere to the MPF and the application of the MPF when they perform their relevant work.
- b. Incorrect. Valuation professionals who have not earned the CEIV credential are not required, but encouraged to adhere to the MPF and the application of the MPF when they perform their relevant work. The MPF documents should be considered best practice for any valuation professional.
- c. MPF is only required of holders of the CEIV credential but is encouraged for other valuation professionals.
- d. MPF is only required of holders of the CEIV credential but is encouraged for other valuation professionals.

Review Question 3: (Please see page 34 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.** Management is responsible for providing the information that is used as input for the model regardless of whether they retained third-party valuation consultants or not.
- d. Incorrect. Management is responsible for providing the information that is used as input for the model regardless of whether they retained third-party valuation consultants or not.

Review Question 4: (Please see page 36, “The MPF: Assisting with reviewing prospective financial information of December *JoA*.)

- a. **Correct.** The MPF strongly encourages that this information be included in the valuation report but does not require it.
- b. Incorrect. If an auditor does not see this information in the valuation report, it must be in the working papers and the auditor will need to discuss with management and the valuation professional how best to review that information.

Review Question 5: (Please see page 35 of December *JoA*.)

- a. Incorrect. Back-testing is fundamentally different in purpose from the requirements established by Topic 855, *Subsequent Events*.
- b. Incorrect. Back-testing is fundamentally different in application from the requirements established by Topic 855, *Subsequent Events*.
- c. Incorrect. Back-testing is fundamentally different – both in purpose and application - from the requirements established by Topic 855, *Subsequent Events*.
- d. **Correct.** Back-testing is fundamentally different – both in purpose and application - from the requirements established by Topic 855, *Subsequent Events*.

End of section IX

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**Section X. Tax Updates Featuring Two Tax Columns:
From *The Tax Adviser*: S Corp. Basis and Why It's Important (Page 59) and
Tax Matters (Page 64)**

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 how to compute an S corporation's shareholder's basis.
2. To learn how to compute a shareholder's basis in debt from an S corporation.
1. To learn about significant tax court cases: *Estate of Sower*, *McGuire*, and *Gowen*.

Section X Review Questions:

1. A shareholder with a basis of \$10,000 in an S corporation can deduct up to _____ of S corporation losses on his or her individual income tax return.
 - a. \$0
 - b. \$2,500
 - c. \$5,000
 - d. \$10,000
 - e. \$12,500
2. To qualify as S corporation debt basis, debt must:
 - a. Run directly from the shareholder to the S corporation.
 - b. Be bona fide.
 - c. Both a and b.
 - d. Neither a nor b.
3. In *Estate of Sower*, the Tax Court ruled that the IRS _____ examine the predeceased spouse's estate to determine the allowable deceased spousal _____ exclusion (DSUE) amount.
 - a. May
 - b. May not
4. The *McGuire* case shows that, under the PPACA, any taxpayers who purchase health insurance through the health insurance exchange may be eligible for an advance monthly premium subsidy if their income is between _____% and _____% of the federal poverty line.
 - a. 50...100
 - b. 50...200
 - c. 50...300
 - d. 100...400
 - e. 100...500
5. In *Gowen*, the taxpayer's 2012 income tax return showed his:
 - a. Wages and unemployment compensation.
 - b. Two nonloan distributions from his 401(k).
 - c. Deemed distribution from his 401(k).
 - d. A, b and c.
 - e. A and b but not c.

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 59.)

- a. Incorrect. This shareholder can deduct more than \$0 of S corporation losses.
- b. Incorrect. This shareholder can deduct more than \$2,500 of S corporation losses.
- c. Incorrect. This shareholder can deduct more than \$5,000 of S corporation losses.
- d. **Correct.** This shareholder can deduct up to his or her basis of \$10,000 of S corporation losses.
- e. Incorrect. This shareholder cannot deduct more than \$10,000 of S corporation losses.

Review Question 2. (Please see page 59.)

- 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.** To qualify as S corporation basis, debt must run directly from the shareholder to the S corporation and must be bona fide debt.
- d. Incorrect. To qualify as S corporation basis, debt must RN directly from the shareholder to the S corporation and must be bona fide debt.

Review Question 3. (Please see page 64.)

- a. **Correct.** The court found that Sec. 2010(c)(5)(B) gives the IRS the power to examine the estate tax return of a predeceased spouse and does not undermine the statute of limitation in Sec. 6501, as no tax was assessed.
- b. Incorrect. The court found that Sec. 2010(c)(5)(B) gives the IRS the power to examine the estate tax return of a predeceased spouse and does not undermine the statute of limitation in Sec. 6501, as no tax was assessed.

Review Question 4. (Please see page 65.)

- a. Incorrect. Household income must be at least 100% of the federal poverty line to receive a Sec. 36B premium assistance tax credit.
- b. Incorrect. Household income must be at least 100% of the federal poverty line to receive a Sec. 36B premium assistance tax credit
- c. Incorrect. Household income must be at least 100% of the federal poverty line to receive a Sec. 36B premium assistance tax credit
- d. **Correct.** Under PPACA, taxpayers who purchase health insurance through a health insurance exchange with household incomes between 100% and 400% of the federal poverty line can receive a Sec. 36B premium assistance tax credit based on their income level and the cost of the health insurance.
- e. Incorrect. Household income must be at least 100% of, but no more than 400% the federal poverty line to receive a Sec. 36B premium assistance tax credit.

Review Question 5. (Please see page 68.)

- 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 taxpayer did not include the deemed distribution in his 2012 income tax return and that's the problem for the taxpayer.
- d. Incorrect. The taxpayer reported wages, unemployment compensation, two nonloan distributions from his 401(k) but did not include the deemed distribution.
- e. **Correct.** The taxpayer reported wages, unemployment compensation, two nonloan distributions from his 401(k) but did not include the deemed distribution.

===== End of Section X.

