Supplementary Study Packet

to Accompany the
Quarterly CPE Exam on
Topics Addressed in the
Journal of Accountancy

Third Quarter 2012 (July, August and September Issues)

Instructions:
Before you start a section of the CPE Final Exam, complete the corresponding section of this Supplementary Study Packet. Do NOT submit answers to the Review Questions.

Purpose: To provide an interactive learning experience.

OUTLINE: The section numbers of Study Packet 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 – VII Relate to the Journal of Accountancy of July 2012:

Section I. Corporate Governance Best Practices 10 Years After SOX (Page 24)
Section II. Updated COSO Framework Will Help Audit Committees Comply with SOX (Page 27)
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Section VI. New Portability Rules: A Cure for Incomplete Estate Planning (Page 48)
Section VII. Tax Matters (Page 68)

Sections VIII – XIII Relate to the Journal of Accountancy of August 2012:

Section VIII. Criminal Minds: What CPAs Can Learn from the Way Thieves Think (Page 26)
Section IX. What's Your Fraud IQ? (Page 32)
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Sections XIV – XVIII Relate to the Journal of Accountancy of September 2012

Section XIV. 2012 Tax Software Survey (Page 22)
Section XVI. ERM: Where To Go From Here (Page 32)
Section XVII. What's your Privacy IQ? (Page 38)
Section XVIII. Selected Tax Columns: Tax Practice Corner (Page 60) and Tax Matters (Page 64)
Section I. Corporate Governance Best Practices 10 Years After SOX (Page 24 of July JoA)

Section I. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 1 through 2.

Section I. Course Objectives:
1. To describe the history of SOX and the reforms it brought to to the audit process.
2. To describe some of the delays in implementing SOX.
3. To describe some of the positive effects SOX has had in strengthening business oversight.

Section I. Review Questions:
1. Which of the following groups of companies are currently required to adopt SOX?
   a. Large public companies.
   b. Small private companies.
   c. Both a and b.
   d. Neither a nor b.

2. According to an SEC study in 2009, the average total Section 404 compliance cost among Section 404(b) reporting companies ____________ in the fiscal year after the reforms.
   a. Increased
   b. Decreased

Section I. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 25 of July JoA.)
a. Correct. Large companies are the targets of the Sarbanes-Oxley Act of 2002.
   b. Incorrect. The effective implementation date for small businesses has been deferral several times.
   c. Incorrect. Large companies have adopted SOX but implementation has been deferred for small companies.
   d. Incorrect. While small companies have been successful in lobbying for deferral, large companies have been required to implement it in a timely fashion.

Review Question 2. (Please see page 25 of July JoA.)
   a. Incorrect. The study showed that the average compliance cost actually decreased from the prior year.
   b. Correct. The study showed that the mean total compliance cost dropped 19% in the fiscal year after the reforms compared to the previous year.

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End of Section I

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Section II. Updated COSO Framework Will Help Audit Committees Comply with SOX (Page 27 of July JoA)

Section II. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 3 through 4.

Section II. Course Objectives:
1. To describe the need for an updated COSO framework.
2. To describe the need for audit committees to review the updated framework.
3. To describe the need for audit committees to share the update with key members of their organization with the goal of keeping their processes and controls in compliance.

Section II. Review Questions:
1. In recent years, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has been active in providing new guidance regarding:
   a. Enterprise risk management.
   b. Enhanced board management.
   c. Quantifying risk appetites.
   d. Monitoring.
   e. All of the above.

2. Proposed changes to the COSO model were prompted by:
   a. Expectations for governance oversight.
   b. Globalization of markets and operations.
   c. Changes in business models.
   d. Demands and complexities in laws, rules, regulations and standards.
   e. All of the above.

Section II. Solutions and Suggested Responses to Review Questions:
Review Question 1. (Please see P. 27 of July JoA.)
   a. Incorrect. This is one of the areas for which guidance was provided but not the only one.
   b. Incorrect. This is one of the areas for which guidance was provided but not the only one.
   c. Incorrect. This is one of the areas for which guidance was provided but not the only one.
   d. Incorrect. This is one of the areas for which guidance was provided but not the only one.
   e. Correct. COSO has been active in providing guidance in all of these areas.

Review Question 2. (Please see P. 27 of July JoA.)
   a. Incorrect. This is one factor that has prompted the proposed changes to COSO but not the only one.
   b. Incorrect. This is one factor that has prompted the proposed changes to COSO but not the only one.
   c. Incorrect. This is one factor that has prompted the proposed changes to COSO but not the only one.
   d. Incorrect. This is one factor that has prompted the proposed changes to COSO but not the only one.
   e. Correct. These are all factors that prompted the proposed changes to the COSO model.

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

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Section III. Highlights of Audit Research (Page 32 of July JoA)

Section III. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 5 through 7.

Section III. Course Objectives:
1. To describe selected academic auditing research studies relating to the following areas:
   a. The impact of industry specialization on auditor judgment.
   b. Auditor-client negotiation.
   c. Executive overconfidence and earnings management.
2. To describe some implications of the research findings to auditors and audit committees.

Section III. Review Questions:

1. According to several studies, ______ of companies receive a going-concern opinion before filing for bankruptcy.
   a. 50% or more
   b. Fewer than 50%

2. The article, “Auditor Differentiation, Mitigating Management Actions, and Audit-Reporting Accuracy for Distressed Firms” reports that an auditor with industry specialization is ______ likely than other auditors to issue a going-concern opinion.
   a. More
   b. Less

Section III. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see P. 32 of July JoA.)
   a. Incorrect. The research shows that fewer than 50% of receiving a going-concern opinion before filing for bankruptcy.
   b. Correct. This may be surprising to many, as users of financial statements often consider going-concern opinion a forewarning of potential bankruptcy.

Review Question 2. (Please see P. 33.)
   a. Correct. Industry specialization is defined as having more than 25% of the market share within a specific manufacturing industry.
   b. Incorrect. The research shows that an auditor with industry specialization is more likely than other auditors to issue a going-concern opinion.

End of Section III.

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Section IV. Simplify Your Future With Rolling Charts (Page 36 of July JoA)

Section IV. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 8 through 9.

Section IV. Course Objectives:
1. To describe the difference between static and rolling charts.
2. To describe the process of creating rolling charts.

Section IV. Review Questions:

1. Static Excel charts _______ automatically and instantaneously updated to reflect the addition of new rows of data.
   a. Are
   b. Are not

2. Creating rolling charts _______ the purchase of additional software to use with Excel.
   a. Require
   b. Does not require

Section IV. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 36)
a. Incorrect. Static Excel charts are not automatically updated to reflect the addition of new rows of data. This is why the process of adding rolling charts is so handy.
b. Correct. By following the four steps to create rolling charts, the charts are automatically updated to reflect the addition of new rows of data.

Review Question 2. (Please see Page 39.)
a. Incorrect. It is not necessary to purchase any software in addition to Excel to create rolling charts.
b. Correct. Excel software has the capability to show rolling charts if the four steps are properly executed.

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

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Section V. Properly Assessing the Reverse Mortgage Option (Page 42 of July JoA)

Section V. Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our course 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 10 through 14.

Section V. Course Objectives:
1. To describe the proper use of reverse mortgages.
2. To describe which kinds of residences are eligible for reverse mortgages.
3. To describe the requirements of reverse mortgage programs.
4. To describe some alternatives to reverse mortgage programs.
5. To describe the advantages of low-cost HECM Saver loans.

Section V. Review Questions:

1. List the basic requirements for getting a reverse mortgage.
2. What can you do with the money from a reverse mortgage?
3. When does the loan get paid back?
4. Can the lender take the house or can I lose the house?
5. Are homeowners required to receive competent counseling before securing a reverse mortgage?

Section V. Solutions and Suggested Responses to Review Questions:

**Review Question 1**: (Please see Page 43.)
The basic requirements are:
a. You must own your own home.
b. You must be 62 or older.
c. You must have a good amount of equity built up in your home.

**Review Question 2**: (Please see Page 44.)
There are no limitations, but obviously it wouldn't be wise to spend the proceeds from a reverse mortgage too early in retirement. Wise uses would include paying off medical bills, needed home repairs, in-home care, etc.

**Review Question 3**: (Please see Page 46.)
You won't have to make house payments as long as you live in your home and maintain the residence and pay property taxes. When you no longer occupy the home as your principal residence, the loan becomes due. If you sell the house, move out permanently or die, the amount due will be the total funds received from the mortgage, the initial fees and closing costs financed as part of the loan, plus accrued interest.

**Review Question 4**: (Please see page 45.)
You cannot, as a result of the reverse mortgage, be forced out of your home, as long as property charges such as taxes and insurance are paid and the home is maintained in reasonable living condition.

**Review Question 5**: (Please see page 47.)
Before securing a reverse mortgage, you are required to receive independent counseling from a certified, HUD-approved counselor. After training, you will receive an eligibility certificate that proves you have attended the mandatory training. This is for your safety and to make sure you are in the right position for a reverse mortgage.

================================== End of Section V.==================================
Section VI. New Portability Rules: A Cure for Incomplete Estate Planning (Page 48 of July JoA)

Section VI. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 15 through 16.

Section VI. Course Objectives:
1. To describe the federal estate and gift tax portability election.
2. To describe life planning for spouses before portability.
3. To describe the portability under the Tax Relief Act of 2010.
4. To describe the requirements for filing the DSUEA election.

Section VI. Review Questions:
1. As of the date of the JoA article, the portability provisions of the Tax Relief Act of 2010 are scheduled to expire on December 31, _______.

2. Estates of decedents who died in the first half of 2011 have ______ months after the date of death to file Form 706 to elect portability.
   a. Six b. Nine c. 15 d. 18 e. 24

Section VI. Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see Page 49.)
a. Correct. At the time of the JoA article, the legislation was set to expire on December 31, 2012.
b. Incorrect. Because it's set to expire at the end of 2012, it's difficult to deal with estate tax planning.
c. Incorrect. Because it's set to expire at the end of 2012, it's difficult to deal with estate tax planning.
d. Incorrect. Because it's set to expire at the end of 2012, it's difficult to deal with estate tax planning.
e. Incorrect. Because it's set to expire at the end of 2012, it's difficult to deal with estate tax planning.

Review Question 2: (Please see Page 51.)
a. Incorrect. This choice is less than the usual nine-month filing requirement.
b. Incorrect. While the filing requirement is normally nine months, certain estates were given more time.
c. Correct. Recognizing that many executors of estates of decedents dying in the first half of 2011 may have overlooked the opportunity to elect portability, the IRA issued Notice 2012-21 to give estates of decedents who died in the first six months of 2011 a six-month extension, until 15 months after the date of death.
d. Incorrect. While certain estates were given more time to file, none were given more than 15 months.
e. Incorrect. While certain estates were given more time to file, none were given more than 15 months.

End of Section VI.

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Section VII. Tax Matters (Page 68 of July JoA)

Section VII. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 17 through 18.

Section VII. Course Objectives:
1. To describe the Tax Court's holding in Dickerson, paying particular attention to gift tax law.
2. To describe the Tax Court's holding in AmeriSouth XXXII, Ltd., paying particular attention to cost segregation principles of apartment building components.

Section VII. Review Questions:
1. In Dickerson, the taxpayer's relatives:
   a. Put up the money to purchase the lottery ticket.
   b. Knew about the lottery ticket before the drawing.
   c. Both a and b.
   d. Neither a nor b.

2. In AmeriSouth XXXII, Ltd., the Tax Court _____ the taxpayer to depreciate apartment building structural components over either five- or 15-year spans.
   a. Allowed
   b. Did not allow

Section VII. Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see Page 69.)
a. Incorrect. The relatives didn't put up the money for the lottery ticket.
b. Incorrect. The relatives didn't know anything about the lottery ticket before the drawing.
c. Incorrect. The relatives neither put up the money nor knew about the lottery ticket until after the drawing.
d. Correct. It is likely that the taxpayer hatched up this scheme to avoid paying the income tax on the lottery proceeds.

Review Question 2: (Please see Page 71.)
a. Incorrect. The Tax Court agreed with the IRS' position that the components were essential components to the building and therefore had the same life span as the buildings themselves.
b. Correct. This was a sorted affair in which the IRS had argued that the taxpayer had even attempted to depreciate some assets that it didn't even own.

End of Section VII.
Section VIII. Criminal Minds: What CPAs Can Learn from the Way Thieves Think (Page 26 of August 2012 JoA)

Section VIII. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 19 through 21.

Section VIII. Course Objectives:
1. To describe six actual fraud schemes.
2. To describe what was done to conceal each of the six frauds.
3. To describe what could have been done to prevent each type of fraud.

Section VIII. Review Questions:
1. Fraud scheme number ____ resulted in the largest dollar loss.
   a. 2  b. 3  c. 4  d. 5  e. 6
2. Requiring two-signature checks might well have prevented the fraud scheme in fraud number:
   a. 1.  b. 2.  c. 3.  d. 4.  e. 5.

Section VIII. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 28.)
   a. Incorrect. The loss of fraud scheme number 2 was $350,000.
   b. Incorrect. The loss of fraud scheme number 3 was $6 million.
   c. Incorrect. The loss of fraud scheme number 4 was 236 million.
   d. Incorrect. The loss of fraud scheme number 5 was between $500 million and $600 million.
   e. Correct. The loss of fraud scheme number 6 was $2.9 billion, making it the largest loss of the six cases.

Review Question 2: (Please see Page 27.)
   a. Correct. Lack of a requirement of two-signature checks was instrumental in fraud case number 1.
   b. Incorrect. Fraud case number 2 involved external auditors who accepted gifts from clients they were auditing.
   c. Incorrect. Fraud case number 3 illustrates the need for a proper “tone at the top” and the need for strong controls.
   d. Incorrect. Fraud case number 4 illustrates the need for a fraud hotline to encourage whistleblowers to come forward more quickly.
   e. Incorrect. Fraud case number 5 highlights the failure of an audit firm to send auditors with enough experience and fraud education to root our fraud.

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

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Section IX. What's Your Fraud IQ? (Page 32 of August JoA)

Section IX. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 22 through 24.

Section IX. Course Objectives:
1. To describe something of what social psychologists know about the mindsets, characteristics and behaviors of individuals who commit fraud.
2. To describe some red flags that often identify deceptive individuals.

Section IX. Review Questions:
1. The strongest system of controls ________ eliminate all risk of fraud to an organization.
   a. Can  b. Cannot

2. The most common reason that CFOs commit financial statement fraud is:
   a. For personal economic gain.
   b. The result of pressure from CEOs.

3. The focus of the research in Milgram's experiment was on the:
   a. Teacher.  b. Student.

Section IX. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 33.)
a. Incorrect. While a strong system of controls can reduce many risks of fraud, even the strongest cannot eliminate all risk.
b. Correct. The fact that no system of controls can eliminate all risks of fraud should not discourage management from investing in internal control systems.

Review Question 2: (Please see Page 35.)
a. Incorrect. The desire for personal economic gain is powerful but not the most common reason for financial statement fraud.
b. Correct. Pressure from CEOs and the accompanying fear of loss of employment is the most common reason CFOs commit financial statement fraud.

Review Question 3: (Please see Page 35.)
a. Correct. The teacher was not told that the shocks being administered to a student were fake and that the student was an actor.
b. Incorrect. If the reader had not understood that the shocks were fake and that the student was an actor, it would have been easy to conclude that the focus of the study was on the student.

================================================================================ End of Section IX.================================================================================

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Section X. Managing Cybersecurity Risks  (Page 44 of August JoA)

Section X. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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.

Section X. Course Objectives:
1. To describe certain cybersecurity threats on the mobile and cloud fronts.
2. To describe steps that accounting firms, individual CPAs, and others can take to reduce their risk of suffering a devastating data breach.

Section X. Review Questions:
1. In percentage terms, which of the following showed the greatest increase in sales over a recent 12-month period?
   a. Desktop computers.  
   b. Laptop computers.  
   c. Smartphones.  
   d. Tablets.

2. According to McAffee Labs, “more than _____ %” of mobile malware in a recent quarter was written for Android devices.
   a. 20  
   b. 40  
   c. 50  
   d. 60  
   e. 80

3. The service-level-agreement __________ address whether the client owns the data or not.
   a. Should  
   b. Should not

Section X. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 44.)
   a. Incorrect. The percentage growth rate of smartphones and tablets has surpassed the growth rate in either desktop or laptop computers.
   b. Incorrect. The percentage growth rate of smartphones and tablets has surpassed the growth rate in either desktop or laptop computers.
   c. Incorrect. The percentage growth rate of smartphones was 45% compared to the growth rate of 120% for tablets.
   d. Correct. The percentage growth rate of tablets was 120% which surpassed the growth rates of smartphones.

Review Question 2: (Please see Page 46.)
   a. Incorrect. The one best answer is “e” because Android devices accounted for more than 80% of the mobile malware written in a recent quarter.
   b. Incorrect. The one best answer is “e” because Android devices accounted for more than 80% of the mobile malware written in a recent quarter.
   c. Incorrect. The one best answer is “e” because Android devices accounted for more than 80% of the mobile malware written in a recent quarter.
   d. Incorrect. The one best answer is “e” because Android devices accounted for more than 80% of the mobile malware written in a recent quarter.
   e. Correct. This corresponds with the fact that there are more viruses among Android devices than with Apple devices.

Review Question 3: (Please see Page 47.)
   a. Correct. This is just one of the areas that service-level agreements with a cloud vendor should address.
   b. Incorrect. A prospective customer of a cloud vendor should insist on having this agreement spelled out in writing and clearly addressed in the service-level agreement.

========================================= End of Section X.
Section XI. Proposed Revisions Clarify Responsibilities for Preparers (Page 50 of August JoA)

Section XI. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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.

Section XI. Course Objectives:
1. To describe proposed revisions to professional standards relating to financial statement preparation.
2. To describe the impact of proposed changes on the auditing, review, and the compilation standards.

Section XI. Review Question:
1. The proposed change __________ conform the professional standards to corresponding GAO standards.
   a. Would    b. Would not

2. The proposal that would make preparing financial statements and performing certain bookkeeping service nonattest services was put forth by:
   a. The AICPA Accounting and Review Services Committee (ARSC).
   b. The AICPA Professional Ethics Executive Committee (PEEC).
   c. Both a and b.
   d. Neither a nor b.

Section XI. Solutions and Suggested Responses to Review Question:

Review Question 1. (Please see Page 51)
a. Correct. The proposal would conform the standards to the independence standard issued by the GAO which indicates that financial statement preparation is not part of the audit service.
b. Incorrect. The GAO's revised standard includes a provision that states that nonattest services would not be considered routine services related to the performance of an audit.

Review Question 2. (Please see Page 51)
a. Incorrect. The ARSC has also exposed for public comment a proposed standard that addresses the accountant's association with financial statements that the accountant has not compiled, reviewed, or audited.
b. Correct. PEEC is the technical committee charged with interpreting and enforcing the AICPA Code of Professional Conduct.
c. Incorrect. It is only the PEEC that put forth the proposal that would make preparing financial statements and performing certain bookkeeping service nonattest services.
d. Incorrect. One of the organizations, the PEEC put forth the proposal that would make preparing financial statements and performing certain bookkeeping service nonattest services.

End of Section XI.

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Section XII. Tax Compliance for Acquisitions: Prepare Before Purchasing (Page 54 of August JoA)

Section XII. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 31 through 33.

Section XII. Course Objectives:
1. To describe the need for understanding the tax implications of an acquisition before attempting to structure the transaction.
2. To describe the need to consider tax implications of the integration of an acquisition.
3. To describe post-acquisition tax compliance.

Section XII. Review Questions:
1. During the due-diligence process of a prospective acquisition, the acquiring company should scrutinize:
   a. Tax attributes from any previous acquisitions.
   b. Reserves for uncertain tax positions.
   c. Any ongoing tax audits of the target company.
   d. All of the above.
   e. A and b but not c.

2. During the integration phase, the company should consider the tax aspects of combining the __________ departments.
   a. Tax
   b. Legal
   c. Information technology
   d. Human resources
   e. All of the above

Section XII. Solutions and Suggested Responses to Review Questions.

Review Question 1: (Please see Page 55.)
a. Incorrect. This area of analysis is only one part of the domain that should be scrutinized.
b. Incorrect. This area of analysis is only one part of the domain that should be scrutinized.
c. Incorrect. This area of analysis is only one part of the domain that should be scrutinized.
d. Correct. All three areas should be scrutinized.
e. Incorrect. All three areas require scrutiny.

Review Question 2: (Please see Page 56.)
a. Incorrect. This is one – but not all – of the departments that should be considered for combination.
b. Incorrect. This is one – but not all – of the departments that should be considered for combination.
c. Incorrect. This is one – but not all – of the departments that should be considered for combination.
d. Incorrect. This is one – but not all – of the departments that should be considered for combination.
e. Correct. All of the departments should be considered for combination.

End of Section XII.

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Section XIII. Avoiding Missteps in the LIFO Conformity Rules

Section XIII. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 34 through 36.

Section XIII. Course Objectives:
1. To describe the LIFO conformity rule.
2. To describe ways to avoid the problem presented by providing IFRS-prepared financial statements.

Section XIII. Review Questions:
1. When prices are rising, which inventory valuation method tends to produce the lowest net income?
   a. Average cost.
   b. FIFO.
   c. LIFO.
2. Under the LIFO conformity rule, companies that use LIFO for tax purposes may use _____ for financial reporting purposes. (Fill in the blank.)
3. LIFO is allowed under:
   a. U.S. GAAP.
   b. IFRS.
   c. Both a and b.
   d. Neither a nor b.

Section XIII. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Page 61.)
a. Incorrect. Average cost would not capture the effect of rising costs as well as LIFO.
b. Incorrect. FIFO would tend to produce the highest net income when prices are rising.
c. Correct. LIFO would tend to produce the lowest net income when prices are rising because it best matches current (higher) costs with revenues.

Review Question 2. (Please see Page 61.)
LIFO.

Review Question 3. (Please see Page 61.)
a. Correct. LIFO is currently allowed under U.S. GAAP because it is considered to properly match current costs with current revenues.
b. Incorrect. LIFO is not allowed under IFRS.
c. Incorrect. LIFO is allowed under U.S. GAAP but not under IFRS.
d. Incorrect. While LIFO is not allowed under IFRS, it is allowed under U.S. GAAP.

==================================== End of Section XIII.

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Section XIV. 2012 Tax Software Survey (Page 22 of September 2012 JoA)

Section XIV. Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our course 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 37 through 39.

Section XIV. Course Objectives:
1. To describe the overall ratings of leading tax software products.
2. To describe what survey respondents liked best about the software product they used during the 2011 tax season.
3. To describe what survey respondents liked least about the software product they used during the 2011 tax season.
4. To describe the reasons why survey respondents switched from the tax software they used for the 2010 tax season.

Section XIV. Review Questions:

1. Compared to the previous year, overall user satisfaction of tax software products:
   a. Increased sharply.
   b. Decreased sharply.
   c. Stayed about the same.

2. The reason cited most often for switching from one tax software product to another was:
   a. Support.
   b. Number of forms/comprehensiveness.
   c. Ease of use.
   d. Accuracy.
   e. Price.

Section XIV. Solutions and Suggested Responses to Review Questions:

Review Question 1. (Please see Pages 23.)
   a. Incorrect. From 2010, user satisfaction did not increase sharply.
   b. Incorrect. From 2010, user satisfaction did not decrease sharply.
   c. Correct. Overall user satisfaction was little changed from previous years, with the ratings for most products hovering near the 4.3 out of 5.0 average, compared to the same 4.3 last year.

Review Question 2. (Please see Pages 25.)
   a. Incorrect. Support was the fourth most frequently given reason for switching.
   b. Incorrect. Comprehensiveness was the second most frequently given reason for switching.
   c. Incorrect. Ease of use was the third most frequently given reason for switching.
   d. Incorrect. Accuracy was the sixth most frequently given reason for switching.
   e. Correct. Price was by far the most frequently given reason for switching, cited by 25.6% of the survey respondents, compared to 10.2% for comprehensiveness, running second.

End of Section XIV.

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Section XV. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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 40 through 42.

Section XV. Course Objectives:
1. To describe the SEC's long-awaited report that contained no recommendation on IFRS adoption in the U.S.
2. To describe some of the SEC's concerns about the IASB.
3. To describe some of the reasons most often cited for adopting IFRS.

Section XV. Review Questions:
1. The SEC ______ IFRS.
   a. Has adopted
   b. Has not adopted
2. FASB and IASB are working on ____ key convergence project(s).
   a. Zero   b. One   c. Two   d. Three

Section XV. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 28.)
a. Incorrect. The SEC disappointed many by not adopting IFRS, as reported by a long-awaited SEC report released in July of 2012.
b. Correct. There are many excuses for delaying a decision.

Review Question 2: (Please see Page 30.)
a. Incorrect. There is at least one convergence project going on between FASB and IASB.
b. Incorrect. There are at least two convergence project going on between FASB and IASB.
c. Incorrect. There are at least three convergence project going on between FASB and IASB.
d. Correct. Incorrect. There is three convergence project now going on between FASB and IASB.

End of Section XV.

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Section XVI. ERM: Where To Go From Here (Page 32 of September 2012 JoA).

Section XVI. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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 43 through 45.

Section XVI. Course Objectives:
1. To describe enterprise risk management processes.
2. To describe how enterprise risk management can help companies properly assess risk and opportunities.
3. To describe the difference between good risks and bad risks and why the difference matters.
4. To describe things companies can do to improve risk management.

Section XVI. Review Questions:
1. Effective ERM processes take _____ issues into account in assessing risks and returns.
   a. Strategic  
   b. Operational  
   c. Financial  
   d. Human  
   e. All of the above

   a. Contributed  
   b. Did not contribute

Section XVI. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 32.)
   a. Incorrect. Strategic issues are important but there are others.
   b. Incorrect. Operational issues are important but there are others.
   c. Incorrect. Financial issues are important but there are others.
   d. Incorrect. Human issues are important but there are others.
   d. **Correct.** Every one of these issues, as well as environmental issues as well, are important in assessing risk and opportunities.

Review Question 2: (Please see Page 34.)
   a. **Correct.** Mistakes in assessing the risks associated with subprime loans and being overleveraged led to taking on risks greater than they had foreseen.
   b. Incorrect. Identifying risks and quantifying risk exposure could have help prevent the fiasco.

============================================================================== End of Section XVI.
Section XVII. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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 46 through 47.

Section XVII. Course Objectives:
1. To describe certain laws and regulations that require business to protect personal data.
2. To describe certain laws and regulations aimed at addressing privacy concerns and the collection, use, disclosure, and disposal of personally identifiable information.
3. To describe the CAN-SPAM Act and its requirements for commercial email messages.

Section XVII. Review Questions:
1. Which of the following laws deals with unsolicited commercial email messages?
   a. FACTA.
   b. FERPA.
   c. COPPA.
   d. CAN-SPAM.
   e. HITECH.

2. The “safe harbor” framework to bridge the different privacy approaches discussed in the article was developed by the ________ in consultation with the European Commission.
   a. U.S. State Department
   b. U.S. Department of Defense
   c. U.S. Central Intelligence Agency
   d. White House
   e. U.S. Department of Commerce

Section XVII. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 40.)
a. Incorrect. FACTA allows consumers to request and obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies.
b. Incorrect. FERPA is a federal law that protects the privacy of student education records and provides guidelines for the inspection, review, and request for correction of inaccuracies discovered in the information.
c. Incorrect. COPPA requires any Web site that targets children 12 and under to post a notice of its information collection practices.
d. Correct. CAN-SPAM is a federal law that requires senders of unsolicited commercial email messages to comply with stated requirements covered in an question on the CPE Exam.
e. Incorrect. HITECH requires that breaches of health records must be reported and sets requirements for dealing with collected patient data.

Review Question 2: (Please see Page 42.)
a. Incorrect. While the U.S. State Department may have been consulted, the framework was developed by another federal agency.
b. Incorrect. While the U.S. Department of Defense may have been consulted, the framework was developed by another federal agency.
c. Incorrect. While the U.S. Central Intelligence Agency may have been consulted, the framework was developed by another federal agency.
d. Incorrect. While the White House may have been consulted, the framework was developed by a federal agency.
e. Correct. The framework was developed by the U.S. Department of Commerce.

========================================= End of Section XVII.
Section XVIII. Selected Tax Columns: Tax Practice Corner (Page 60) and Tax Matters (Page 64) of September 2012 JoA

Section XVIII. Assignment:
1. Study the articles (reference text) in the Journal of Accountancy, paying particular attention to our course 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 48 through 50.

Section XVIII. Course Objectives:
1. To describe likely IRS enforcement strategies during the next decade. (in Tax Practice Corner).
2. To describe the Tax Court's findings in Maguire which illustrated how shifting receivables between S corporations increased basis, paving the way for a greater deduction of pass-through losses.
3. To describe the Tax Court's denial of exclusion for the former spouse from the assignment of disability income.

Section XVIII. Review Questions:
1. Over the last decade, which of the following expenditures produced the higher return on investment for the Internal Revenue Service?
   a. Salaries of field auditors.
   b. Technology.

2. Taxpayers who own stock in an S corporation may deduct losses from the entity to the extent of:
   a. Their basis in the stock of the S corporation.
   b. Their basis in any debt owed to them by their S corporation.
   c. Their basis in the stock of the S corporation plus their basis in any debt owed to them by their S corporation.

Section XVIII. Solutions and Suggested Responses to Review Questions:

Review Question 1: (Please see Page 60.)
   a. Incorrect. While the IRS depends on the efforts of its qualified field auditors, investments in technology have produced higher returns on investment than salaries.
   b. Correct. Technology has resulted in greater and more effective use of computer-matching and mail-driven compliance programs.

Review Question 2: (Please see Page 65.)
   a. Incorrect. Maguire demonstrates that this is part of the basis but not all. Basis in debt owed to them by the corporation counts as well.
   b. Incorrect. Maguire demonstrates that this is part of the basis but not all. Basis in stock of the entity counts as well.
   c. Correct. Taxpayers who own stock in S corporations may deduct such losses from the S corporation to the extent of their basis in the stock they own in the S corporation as well as the basis of any debt owed to them by the S corporation.

========================================== End of Section XVIII.

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