“Optimism is an essential ingredient of innovation. How else can the individual welcome change over security, adventure over staying in safe places.”
...Robert Noyce – Co founder of Fairchild Semiconductor and Intel Corporation

Supplementary Study Guide/Syllabus to Accompany the Quarterly CPE Exam on Topics Addressed in the *Journal of Accountancy*

Fourth Quarter (October – December), 2018

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 *JofA*.

Sections I – IV Relate to the *Journal of Accountancy* of October 2018:

Section I. Bank-Financing an Accounting Practice Sale (Page 20)
Section II. Critical Audit Matters Coming into Focus (Page 26)
Section III. Benchmarking the Features of a 401(k) Plan (Page 30)
Section IV. Tax Reform Law Deals Pro Gamblers a Losing Hand (Page 42)

Sections V – VII Relate to the *Journal of Accountancy* of November 2018:

Section V. Overcoming Obstacles to Engagement Letter Use (Page 14)
Section VI. Why Cyberdefenses are Worth the Cost (Page 35)
Section VII. Understanding the New Kiddie Tax (Page 48)

Sections VIII and IX Relate to the *Journal of Accountancy* of December 2018

Section VIII. New Tax Credit for Paid Family and Medical Leave (Page 20)
Section IX. The Pros and Cons of LLCs (Page 52)
The Learning Objectives are stated in each of the following sections.

**Section I. Bank-Financing an Accounting Practice Sale (Page 20)**

**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 8.

**Section I Learning Objectives:**
1. To learn the advantages of SBA 7(a) loans over conventional lending when purchasing an accounting practice.
2. To learn about the different types of SBA lenders and the related advantages.
3. To learn about the detail terms and requirements to qualify for an SBA 7(a) loan.

**Section I Review Questions:**
1. Before selling your accounting practice, it is necessary to seriously consider:
   a. How the sale will be financed.
   b. Contacting the Small Business Administration for a loan.
   c. Selling to a third party rather than an employee.
   d. Accepting a small down payment with and earnout.
   e. Selling to an employee rather than a third party.
2. The SBA 7(a) Loan Program provides an alternative to a CPA buyer who (whose).
   a. Does not have a good credit score.
   b. Loan request to purchase an accounting practice has been rejected by conventional lenders.
   c. Doesn't want to personally guarantee the loan.
   d. Can't provide a down payment.
   e. Does not want a lien on the practice.
3. Depending on the size of the loan and subject to conformity with SBA policy, the SBA guarantees 7(a) loans to the extent of ____________ of the loan amount.
   a. 75% to 80%
   b. 80% to 85%
   c. 85% to 90%
   d. 75% to 85%
   e. 90% to 100%
4. One of the best features of SBA 7(a) loans is:
   a. Most, if not all of the purchase price is paid to the seller in cash at closing.
   b. The SBA guarantees 100% of the loan.
   c. The SBA loan requires no valuation of the practice.
   d. Lenders can't have greater restrictions than the SBA allows.
   e. The SBA does not require a down payment.
5. Under what circumstances will the SBA require a first-position blanket lien against all assets of the practice purchased?
   a. When the buyer has an inadequate credit score.
   b. When the loan exceeds the asset value of the practice purchased.
   c. Under all circumstances.
   d. When the loan term exceeds 10 years.
   e. When the down payment is less than 10%.
6. Primary SBA 7(a) loan requirements include:
   a. Adequate borrower credit score.
   b. Minimum 10% equity injection.
   c. Personal guarantee of any borrower with 10% or more ownership.
   d. Use of a lender qualified under the Preferred Lenders Program.
   e. a and b.

7. The difference between the two categories of SBA 7(a) lenders is:
   a. Loans under the Preferred Lender Program are submitted first to the SBA for underwriting.
   b. Loans under standard submission are approved by the lender, then sent to the SBA.
   c. Loans under the Preferred Lender Program are underwritten by the lender without sending it to the SBA for a second approval.
   d. Loans under standard submission must be approved by the SBA before approval by the lender and so is underwritten twice.
   e. c and d.

8. Floating interest rates on SBA 7(a) loans range from prime plus:
   a. 1% - 1.5%.
   b. 1.5% - 2.0%.
   c. 1.75% - 2.25%.
   d. 2% - 2.75%.
   e. 2.25% – 3.25%

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 21 of October JofA.)
   a. Correct. In the author's experience, financing is a necessary consideration.
   b. Incorrect. The SBA works to guarantee loans, but does not lend money.
   c. Incorrect. The author gives importance to financing arrangements regardless of purchaser.
   d. Incorrect. The author's example does not advocate for a small down payment and earnout.
   e. Incorrect. The author gives importance to financing arrangements regardless of purchaser.

Review Question 2. (Please see page 21 of October JofA.)
   a. Incorrect. SBA loans require an adequate credit score.
   b. Correct. Traditional lenders often require tangible collateral which most accounting practices lack.
   c. Incorrect. Both SBA and traditional lenders will require personal guarantees.
   d. Incorrect. Both SBA and traditional lenders will require a down payment.
   e. Incorrect. Both SBA and traditional lenders will require a lien on the practice.

Review Question 3: (Please see page 22 of October JofA.)
   a. Incorrect. The SBA guarantees 7(a) loans to 75% to 85% of the loan amount.
   b. Incorrect. The SBA guarantees 7(a) loans to 75% to 85% of the loan amount.
   c. Incorrect. The SBA guarantees 7(a) loans to 75% to 85% of the loan amount.
   d. Correct. The SBA guarantees 7(a) loans to 75% to 85% of the loan amount.
   e. Incorrect. The SBA guarantees 7(a) loans to 75% to 85% of the loan amount.

Review Question 4. (Please see page 22 of October JofA.)
   a. Correct. This eliminates the risk or uncertainty of an earnout or seller financing.
   b. Incorrect. The SBA does not guarantee 100% of the loan.
   c. Incorrect. The SBA does require a business valuation to support the purchase price/loan.
   d. Incorrect. Lenders may have restrictions greater than the SBA requires.
   e. Incorrect. The SBA does require a down payment.

Review Question 5. (Please see page 23 of October JofA.)
   a. Incorrect. The SBA lender will always secure a first position blanket lien on practice assets.
   b. Incorrect. The SBA lender will always secure a first position blanket lien on practice assets.
   c. Correct. The SBA lender will always secure a first position blanket lien on practice assets.
   d. Incorrect. The SBA lender will always secure a first position blanket lien on practice assets.
   e. Incorrect. The SBA lender will always secure a first position blanket lien on practice assets.

Review Question 6. (Please see page 23 of October JofA.)
   a. Incorrect. This is part of the answer, but not the most complete.
   b. Incorrect. This is part of the answer, but not the most complete.
   c. Incorrect. The SBA lender requires a personal guarantee of any 20% or more owner/borrower.
   d. Incorrect. The SBA does not require the use of a “preferred lender”.
   e. Correct. The SBA lender will require an adequate credit score and at least a 10% equity injection.

Review Question 7. (Please see page 22 of October JofA.)
   a. Incorrect. The “preferred lender” underwrites the loan, rather than the SBA.
   b. Incorrect. Under standard submission, the SBA must review the loan prior to approval by the lender.
   c. Incorrect. This is part of the answer, but not the most complete.
   d. Incorrect. This is part of the answer, but not the most complete.
   e. Correct. Both statements in a and b are true.

Review Question 8. (Please see page 23 of October JofA.)
   a. Incorrect. When this article was published, typical rates ranged from prime plus 2% - 2.75%.
   b. Incorrect. When this article was published, typical rates ranged from prime plus 2% - 2.75%.
   c. Incorrect. When this article was published, typical rates ranged from prime plus 2% - 2.75%.
   d. Correct. When this article was published, typical rates ranged from prime plus 2% - 2.75%.
   e. Incorrect. When this article was published, typical rates ranged from prime plus 2% - 2.75%.

==========================================End of Section I.
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.

Section II Learning Objectives:
1. To learn about changes to the auditors' report required under AS 3101.
2. To learn about the phased effective dates of AS 3101.
3. To learn what constitutes a critical audit matter.

Section II Review Questions:
1. The purpose of AS 3101 is to enhance the relevance and usefulness of the:
   a. Engagement letter.
   c. Footnotes.
   d. Supplementary schedules.
2. The communication of critical audit matters is not required until audits of fiscal years ending on or after:
3. Critical audit matters are matters that:
   a. Have been communicated to the audit committee.
   b. Are related to accounts or disclosures that are material to the financial statements.
   c. Involve especially challenging, subjective or complex auditor judgment.
   d. Have not been encountered in a prior year audit.
   e. a, b and c.
4. AS 3101 generally applies to audits of:
   a. All US entities public and private.
   b. Publicly held US entities with revenues greater than $1 billion.
   c. All publicly held US entities.
   d. Any US entity with revenues greater than $100 million.
   e. All publicly held US entities with revenues greater than $100 million.
5. Some of the challenges AS 3101 presents to auditors include:
   a. No all-inclusive list of critical audit matters.
   b. No guidance on how many critical audit matters must be disclosed.
   c. Disclosure language could become “boilerplate”.
   d. a and b.
   e. a, b and c.

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

**Review Question 1.** (Please see page 27 of October *JofA*.)

a. Incorrect. AS 3101 enhances the auditor's report.
b. **Correct.** AS 3101 enhances the auditor's report.
c. Incorrect. AS 3101 enhances the auditor's report.
d. Incorrect. AS 3101 enhances the auditor's report.

**Review Question 2.** (Please see page 29 of October *JofA*.)

a. Incorrect. The correct answer is June 30, 2019.
b. Incorrect. The correct answer is June 30, 2019.
c. **Correct.** Communication of critical audit matters is required beginning with audits of fiscal years ending on or after June 30, 2019.
d. Incorrect. The correct answer is June 30, 2019.
e. Incorrect. The correct answer is June 30, 2019.

**Review Question 3.** (Please see page 27 of October *JofA*.)

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. Critical audit matters can occur in a prior year audit.
e. **Correct.** Critical audit matters include all elements of a, b and c.

**Review Question 4.** (Please see page 27 of October *JofA*.)

a. Incorrect. AS 3101 applies to all US publicly-held companies.
b. Incorrect. AS 3101 applies to all US publicly-held companies.
c. **Correct.** AS 3101 applies to all US publicly-held companies.
d. Incorrect. AS 3101 applies to all US publicly-held companies.
e. Incorrect. AS 3101 applies to all US publicly-held companies.

**Review Question 5.** (Please see page 28 of October *JofA*.)

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.** Challenges include all three of a, b and c.

========================================== End of Section II.
Section III. Benchmarking the Features of a 401(k) Plan (Page 30 of October JofA)

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 14 through 20.

Section III Learning Objectives:
1. To learn about important features of employer sponsored retirement plans.
2. To learn about retirement plan features that involve fiduciary responsibilities.

Section III Review Questions:

1. Business owners who sponsor retirement plans:
   a. Are required by the Department of Labor to “benchmark” their plan.
   b. Are required to use a plan vendor who offers warranties.
   c. Have fiduciary responsibilities regarding the plan.
   d. Must restore investment losses incurred by participants.
   e. Avoid fiduciary duty by using a third party administrator.

2. The retirement plan aspect that recently gets the most intense focus is:
   a. Annual investment returns.
   b. Adequacy of participant education.
   c. Treatment of low-balance separated participants.
   d. Number of Highly Compensated Employees (HCE).
   e. Cost.

3. Under Employee Retirement Income Security Act (ERISA) Section 404(c) participants:
   a. Can exercise control over their account assets.
   b. Cannot exercise control over their account assets.
   c. Must use target date allocation models if self-investing.
   d. Are required to attend an educational workshop.
   e. May not borrow from plan assets.

4. One benefit of index funds and ETF’s is:
   a. Superior performance over the last five years.
   b. Low cost.
   c. These funds invest only in “fair trade” countries.
   d. a and b.
   e. b and c.

5. Many plan sponsors may be unaware that small balances for terminated participants:
   a. Must be reported on Form 5558.
   b. Must be paid out within 75 days of the plan year end.
   c. Notification must be sent to the participant's spouse.
   d. May be paid out (forced out).
   e. Must earn interest at rate no less than 5%.

6. Disclosures to plan participants are required when?
   a. Only after the year of a significant plan change.
   b. Once the total plan participant count exceeds 100.
   c. Annually.
   d. To each participant only upon enrollment or termination.
   e. One year before the participant's projected retirement date.
7. Retirement plan vendors (or advisors) who offer warranties will:
   a. Provide participant statements for free.
   b. Invest in no load mutual funds only.
   c. Guarantee the Form 5500 is correct.
   d. Promise to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.
   e. Guarantee a specified investment return and will pay the retirement fund the difference after the year end.

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 31 of October JofA.)
   a. Incorrect. Business owners are not required to “benchmark” the plan.
   b. Incorrect. Business owners are not required to use a plan vendor who offers warranties.
   c. Correct. Business owners have fiduciary responsibilities regarding the plan.
   d. Incorrect. The business owner would not have to restore losses, assuming the owner satisfied their fiduciary responsibilities.
   e. A third party administrator does not eliminate fiduciary duty.

Review Question 2. (Please see page 31 of October JofA.)
   a. Incorrect. According the author, the most intense focus is on plan cost.
   b. Incorrect. According the author, the most intense focus is on plan cost.
   c. Incorrect. According the author, the most intense focus is on plan cost.
   d. Incorrect. According the author, the most intense focus is on plan cost.
   e. Correct. According the author, the most intense focus is on plan cost.

Review Question 3: (Please see page 32 of October JofA.)
   a. Correct. ERISA Section 404(c) allows participants to exercise control over their account assets.
   b. Incorrect. ERISA Section 404(c) allows participants to exercise control over their account assets.
   c. Incorrect. Target date allocation models are not required by ERISA.
   d. Incorrect. Sponsors should offer education, but participants can decline.
   e. Incorrect. The author does not make this claim.

Review Question 4. (Please see page 32 of October JofA.)
   a. Incorrect. The author does not make this claim.
   b. Correct. One benefit of index funds and ETFs is low cost.
   c. Incorrect. The author does not make this claim.
   d. Incorrect. “a” is incorrect, “b” is correct.
   e. Incorrect. “b” is correct, “c” is incorrect.

Review Question 5. (Please see page 32 of October JofA.)
   a. Incorrect. The author does not make this claim. Note: Form 5558 is an extension request.
   b. Incorrect. The author does not make this claim.
   c. Incorrect. The author does not make this claim.
   d. Correct. Small balances of terminated participants can be paid out (forced out).
   e. Incorrect. The author does not make this claim.

Review Question 6. (Please see page 32 of October JofA.)
   a. Incorrect. Disclosures are required annually.
   b. Incorrect. Disclosures are required annually.
   c. Correct. Disclosures are required annually.
   d. Incorrect. Disclosures are required annually.
   e. Incorrect. Disclosures are required annually.

Review Question 7. (Please see page 31 of October JofA.)
   a. Incorrect. Under the warranty the vendor promises to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.
   b. Incorrect. Under the warranty the vendor promises to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.
   c. Incorrect. Under the warranty the vendor promises to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.
   d. Correct. Under the warranty the vendor promises to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.
   e. Incorrect. Under the warranty the vendor promises to restore losses to the plan and pay litigation costs related to the suitability of the investment lineup and process.

----------------------------------------End of Section III.
Section IV Assignment:
1. Study the article (reference text) in the *Journal of Accountancy*, paying particular attention to our **Learning Objectives** stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 21 through 25.

**Section IV Learning Objectives:**
1. To learn how the Tax Cuts and Jobs Act of 2017 (TCJA) overturned both Tax Court rulings and IRS memos regarding the deductibility of various gambling expenses.
2. To learn the differences in the reporting of income and expenses between a professional gambler and a casual gambler.
3. To learn why professional gamblers no longer can generate a net operating loss.

**Section IV Review Questions:**

1. Under the Tax Cuts and Jobs Act of 2017 (TCJA) a professional gambler can no longer deduct:
   a. Travel expenses.
   b. Losing wagered.
   c. Home office expense.
   d. Any expenses.
   e. Net losses from gambling.

2. All taxpayers are required to report gambling expenses winnings:
   a. On Form 1099-MISC.
   b. On Schedule C.
   c. Net of gambling expenses.
   d. As “other income” on Form 1040.
   e. b or d, depending on whether a casual or professional gambler.

3. The result of the Tax Court ruling in *Mayo*, 136T.C. 81 (2011), professional gamblers could:
   a. Deduct wagering losses in excess of wagering gains.
   b. Exclude from gross income winnings not reported on Form 1099-MICS or W2-G.
   c. Generate a Net Operating Loss (NOL) from gambling activities.
   d. Deduct travel to the extent of winnings.
   e. Deduct gambling business expenses only to the extent of winnings.

4. Some examples of court rulings regarding the definition of income include:
   a. Gross income does not include the cost of capital (eg: the cost of a winning lottery ticket).
   b. A lottery winner could deduct from gross winnings the cost of all other non-winning lottery tickets.
   c. Complimentary meals and lodging (“comps”) constitute gains from wagering transactions.
   d. a and b.
   e. a and c.

5. Under the TCJA, the amendment to Section 165(d) along with most of the other provisions affecting individual taxpayers is set to expire at the end of:
   c. 2022.
   d. 2025.
   e. 2028.

**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 43 of October JofA.)
- Incorrect. The TCJA did not affect travel expenses for professional gamblers.
- Incorrect. The TCJA did not affect losing wagers for professional gamblers.
- Incorrect. The TCJA did not affect home office expenses for professional gamblers.
- Incorrect. The TCJA did not affect expenses for professional gamblers.
- Correct. The TCJA ended the ability of professional gamblers to deduct net losses from gambling.

**Review Question 2.** (Please see page 45 of October JofA.)
- Incorrect. A taxpayer may receive a Form 1099-MISC but not issue one.
- Incorrect. This is part of but not the most complete answer.
- Incorrect. Gambling expenses are reported separately from winnings.
- Incorrect. This is part of but not the most complete answer.
- Correct. Winnings are reported on either Form 1040 or Schedule C, depending on whether the taxpayer is a casual or professional gambler.

**Review Question 3.** (Please see page 43 of October JofA.)
- Incorrect. Under Mayo wager losses still could be deducted only to the extent of wager gains.
- Incorrect. All winnings are included in reportable income.
- Correct. The Tax Court in Mayo allowed a professional gambler to deduct business expenses in excess of winnings, thus allowing a Net Operating Loss (NOL) from gambling activities.
- Incorrect. Travel expense deductibility was not changed by Mayo.
- Incorrect. Gambling expense deductibility was not changed by Mayo.

**Review Question 4.** (Please see page 44 of October JofA.)
- Incorrect. This is part of but not the most complete answer.
- Incorrect. The cost of a winning ticket is deductible from the associated winnings, but not non-winning tickets.
- Incorrect. This is part of but not the most complete answer.
- Incorrect. “a” is correct, “b” is incorrect.
- Correct. “a” and “c” are correct.

**Review Question 5.** (Please see page 47 of October JofA.)
- Incorrect. Most of the individual provisions of the TCJA will expire at the end of 2025.
- Incorrect. Most of the individual provisions of the TCJA will expire at the end of 2025.
- Incorrect. Most of the individual provisions of the TCJA will expire at the end of 2025.
- Correct. Most of the individual provisions of the TCJA will expire at the end of 2025.
- Incorrect. Most of the individual provisions of the TCJA will expire at the end of 2025.

================================================== End of Section IV. 
Section V. Overcoming Obstacles to Engagement Letter Use (Page 14 of November JofA),

Section V Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our Learning Objectives stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 26 through 30.

Section V Learning Objectives:

1. To learn how engagement letters may help prevent or mitigate client claims.
2. To learn how an engagement letter can promote client understanding of the scope of service.
3. To learn strategies to reduce the time required to manage the engagement letter process.

Section V Review Questions:

1. Why would a CPA use an engagement letter in the performance of a client audit?
   a. They are required in order to secure professional liability insurance.
   b. They are a “get out of jail free” card if a claim occurs.
   c. Professional standards require an engagement letter for attest services.
   d. To prevent the client from filing a lawsuit.
   e. They reduce time required for audit work.

2. Standards for non-attest services require the CPA to:
   a. Provide the client a specific time-line for completion of the services.
   b. Provide a fee schedule in advance of commencing work.
   c. Specify the persons who will perform the services.
   d. Establish an understanding with the client of the services to be performed.
   e. Issue a letter of disclaimer when giving written advice.

3. In the AICPA Professional Liability Program 43% of 2017 claims related to tax services were filed against CPA firms that:
   a. Did not have a client representation letter.
   b. Withheld client files because of unpaid fees.
   c. Failed to mail or e-file extension requests.
   d. Did not have an engagement letter for the services.
   e. Lost original client tax documents.

4. Some reasons CPA’s do not use engagement letters include:
   a. “Engagement letters don't really work.”
   b. “I have long-time clients who would never sue.”
   c. “Much of my work is ad hoc consulting.”
   d. b and c.
   e. a, b and c.

5. What kinds of engagement letters do not require a client signature?
   a. A letter prepared using the AICPA template.
   b. A letter sent by registered mail.
   c. A unilateral engagement letter.
   d. A bilateral engagement letter.
   e. A letter provided by the professional liability insurer.

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 14 of November *JofA.*)

b. Incorrect. Professional standards require an engagement letter for attest services.
c. **Correct.** Professional standards require an engagement letter for attest services.
d. Incorrect. Professional standards require an engagement letter for attest services.
e. Incorrect. Professional standards require an engagement letter for attest services.

**Review Question 2.** (Please see page 14 of November *JofA.*)

a. Incorrect. Standards require the CPA to Establish an understanding with the client of the services to be performed.
b. Incorrect. Standards require the CPA to Establish an understanding with the client of the services to be performed.
c. Incorrect. Standards require the CPA to Establish an understanding with the client of the services to be performed.
d. **Correct.** Standards require the CPA to Establish an understanding with the client of the services to be performed.
e. Incorrect. Standards require the CPA to Establish an understanding with the client of the services to be performed.

**Review Question 3.** (Please see page 14 of November *JofA.*)

a. Incorrect. The CPA firm did not have an engagement letter for the services.
b. Incorrect. The CPA firm did not have an engagement letter for the services.
c. Incorrect. The CPA firm did not have an engagement letter for the services.
d. **Correct.** The CPA firm did not have an engagement letter for the services.
e. Incorrect. The CPA firm did not have an engagement letter for the services.

**Review Question 4:** (Please see page 14-15 of November *JofA.*)

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 answers for a, b and c are all correct.

**Review Question 5:** (Please see page 15 of November *JofA.*)

a. Incorrect. A universal engagement letter does not require a client signature.
b. Incorrect. A universal engagement letter does not require a client signature.
c. **Correct.** A universal engagement letter does not require a client signature.
d. Incorrect. A universal engagement letter does not require a client signature.
e. Incorrect. A universal engagement letter does not require a client signature.

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

**REFERRAL INCENTIVE PROGRAM - WE’LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:**

Receive $10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we’ll send you a check for $10. It’s as simple as that. We welcome any questions by either phone or email.
Section VI. Why Cyberdefenses are Worth the Cost (Page 35 of November JofA)

Section VI Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our Learning Objectives stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 31 through 35.

Section VI Learning Objectives:
1. To learn about some of the common types of cyberattacks.
2. To learn various strategies to prevent the attacks or mitigate the damage.

Section VI Review Questions:

1. The primary motivation for cyberattackers is to:
   a. Send “spam” email.
   b. Disable your search engine.
   c. Acquire money and information.
   d. Create segmentation on your network.
   e. Display “popup” advertising.

2. Educating employees is important. One inexpensive defense is to:
   a. Warn against clicking on links and opening malicious files.
   b. Warn against sending emails to multiple recipients.
   c. Notify all employees that opening a malicious file will result in immediate termination.
   d. Never use wire transfers to pay vendors.
   e. Discourage employees from verbally confirming with management emailed directives.

3. A key component of mitigating a ransomware attack is:
   a. ACH.
   b. Phishing.
   c. System backup.
   d. Lateral movement.
   e. Use of “end of life” systems and software.

4. According to Verizon's 2018 Data Breach Investigations Report, the most prevalent form of malicious software in 2017 was:
   a. ACH.
   b. Network segmentation.
   c. Phishing.
   d. Ransomware.
   e. Cyberware.

5. Phishing attacks attempt to steal _____________ of the organization's associates.
   a. Cyberware
   b. Credentials
   c. Malware
   d. Web pages
   e. Security patches

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 35 of November JofA.)

a. Incorrect. The primary motivation is to acquire money and information.
b. Incorrect. The primary motivation is to acquire money and information.
c. Correct. The primary motivation is to acquire money and information.
d. Incorrect. The primary motivation is to acquire money and information.
e. Incorrect. The primary motivation is to acquire money and information.

**Review Question 2.** (Please see page 35 of November JofA.)

a. Correct. An inexpensive defense is to warn employees against clicking on links and opening malicious files.
b. Incorrect. An inexpensive defense is to warn employees against clicking on links and opening malicious files.
c. Incorrect. An inexpensive defense is to warn employees against clicking on links and opening malicious files.
d. Incorrect. An inexpensive defense is to warn employees against clicking on links and opening malicious files.
e. Incorrect. An inexpensive defense is to warn employees against clicking on links and opening malicious files.

**Review Question 3.** (Please see page 36 of November JofA.)

a. Incorrect. System backups can be key in mitigating ransomware attacks.
b. Incorrect. System backups can be key in mitigating ransomware attacks.
c. Correct. System backups can be key in mitigating ransomware attacks.
d. Incorrect. System backups can be key in mitigating ransomware attacks.
e. Incorrect. System backups can be key in mitigating ransomware attacks.

**Review Question 4.** (Please see page 37 of November JofA.)

a. Incorrect. Ransomware was the most prevalent form of malicious software in 2017.
b. Incorrect. Ransomware was the most prevalent form of malicious software in 2017.
c. Incorrect. Ransomware was the most prevalent form of malicious software in 2017.
d. Correct. Ransomware was the most prevalent form of malicious software in 2017.
e. Incorrect. Ransomware was the most prevalent form of malicious software in 2017.

**Review Question 5.** (Please see page 38 of November JofA.)

a. Incorrect. Phishing attacks attempt to steal a person's credentials.
b. Correct. Phishing attacks attempt to steal a person's credentials.
c. Incorrect. Phishing attacks attempt to steal a person's credentials.
d. Incorrect. Phishing attacks attempt to steal a person's credentials.
e. Incorrect. Phishing attacks attempt to steal a person's credentials.

====== End of Section VI
Section VII. 2018  Understanding the New Kiddie Tax (Page 48 of November JofA)

Section VII Assignment:
1. Study the article (reference text) in the Journal of Accountancy, paying particular attention to our Learning Objectives stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 36 through 40.

Section VII Learning Objectives:
1. To learn how the Tax Cuts and Jobs Act (TCJA) changed the kiddie tax compared to prior years.
2. To learn the new concept of “earned taxable income” (ETI).
3. To learn how ETI and “net unearned income” (NUI) are used in the calculation of the new kiddie tax.

Section VII Review Questions:

1. The “kiddie tax” is:
   a. A tax children pay on all their income.
   b. The reduction of the child credit due to high income.
   c. A tax imposed on certain children with unearned income.
   d. A tax children pay on gifts from parents exceeding $15,000 for the tax year.
   e. A new tax on children with unearned income that will begin effective 2018.

2. The previous tax law required the kiddie tax to be:
   a. Paid by the parents.
   b. The greater of two calculations.
   c. The lessor of two calculations.
   d. The average of two calculations.
   e. Calculated using the tax rate of the higher income parent if they are not filing as married filing jointly.

3. A child's unearned income will generally be comprised of:
   a. Dividends and interest.
   b. Capital gains.
   c. Taxable social security benefits.
   d. a and b.
   e. a, b and c.

4. A complexity the TCJA added to the kiddie tax computation is the use of single tax rate tables which:
   a. Have been modified by reference to the capital gains rates.
   b. Have been modified by reference to the estate/trust rates.
   c. Have been modified to reduce tax rates to equal estate and trust rates.
   d. Have been modified to exclude earned taxable income (ETI).
   e. Have been modified to increase the single tax brackets by $2,550.

5. Earned Taxable Income (ETI) is calculated as:
   a. The child's earned income less the standard deduction.
   b. The child's earned income less net unearned income (NUI).
   c. The child's net unearned income (NUI) less the standard deduction.
   d. The child's taxable income less the standard deduction.
   e. The child's taxable income less net unearned income (NUI)

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 49 of November JofA.)
a. Incorrect. The kiddie tax is a tax imposed on certain children unearned income.
b. Incorrect. The kiddie tax is a tax imposed on certain children unearned income.
c. Correct. The kiddie tax is a tax imposed on certain children unearned income.
d. Incorrect. The kiddie tax is a tax imposed on certain children unearned income.
e. Incorrect. The kiddie tax is not new for 2018.

Review Question 2. (Please see page 49 of November JofA.)
a. Incorrect. Under the prior law, the parents had the option to pay the tax, but it was not required.
b. Correct. Under the prior law, the kiddie tax was the greater result of two calculations.
c. Incorrect. Under the prior law, the kiddie tax was the greater result of two calculations.
d. Incorrect. Under the prior law, the kiddie tax was the greater result of two calculations.
e. Incorrect. Under the prior law, the kiddie tax was the greater result of two calculations.

Review Question 3. (Please see page 50 of November JofA.)
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. Unearned income includes all of the above.

Review Question 4. (Please see pages 51-52 of November JofA.)
a. Incorrect. The kiddie tax computation uses single rate tables modified by reference to the estate/trust tax tables.
b. Correct. The kiddie tax computation uses single rate tables modified by reference to the estate/trust tax tables.
c. Incorrect. The kiddie tax computation uses single rate tables modified by reference to the estate/trust tax tables.
d. Incorrect. Earned taxable income (ETI) is not excluded from the calculation.
e. Incorrect. The $2,550 is just one of of the bracket adjustments.

Review Question 5. (Please see page 50 of November JofA.)
a. Incorrect. Earned taxable income (ETI) is the child's taxable income less net unearned income (NUI).
b. Incorrect. Earned taxable income (ETI) is the child's taxable income less net unearned income (NUI).
c. Incorrect. Earned taxable income (ETI) is the child's taxable income less net unearned income (NUI).
d. Incorrect. Earned taxable income (ETI) is the child's taxable income less net unearned income (NUI).
e. Correct. Earned taxable income (ETI) is the child's taxable income less net unearned income (NUI).

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

REFERRAL INCENTIVE PROGRAM - WE'LL PAY YOU FOR REFERRING NEW QUALIFYING CUSTOMERS:

Receive $10 for each new customer you refer to us. For every new qualifying customer who pays for an exam and mentions your name, we'll send you a check for $10. It's as simple as that. We welcome any questions by either phone or email.
Section VIII. New Tax Credit for Paid Family and Medical Leave (Page 20 of December JofA)

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 41 through 45.

Section VIII Learning Objectives:
1. To learn the general provisions of the new credit.
2. To learn the basics of the credit calculation.

Section VIII Review Questions:

1. The Tax Cuts and Jobs Act (TCJA) provides a new code section 45S to provide a tax credit related to family and medical leave expenses. The credit is claimed by:
   a. The employee.
   b. The business/employer.
   c. The employee, only if the leave was unpaid.
   d. a and b.
   e. b and c.

2. To qualify for the credit, the employer must:
   a. Have at least 50 employees.
   b. Pay leave for 12 weeks.
   c. Pay leave at amounts equal to or greater than 50% of the employee's normal wages.
   d. a and b.
   e. b and c.

3. The new Section 45S tax credit is available to:
   a. Only those employers not subject to the FMLA (Family Medical Leave Act of 1993).
   b. Only to employers with less than 50 employees.
   c. Only those employers subject to the FMLA.
   d. Only employers with 50 or more employees.
   e. Employers both subject to and exempt from the FMLA.

4. The new Section 45S credit can range from _______ to _______ of wages.
   a. 12.5% to 25%
   b. 25% to 50%
   c. 7.65% to 15.3%
   d. 2% to 12%
   e. 50% to 100%

5. The new Section 45S credit is available for tax years:
   e. 2018-2025.

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 21 of December JofA.)
   a. Incorrect. The business/employer claims the Section 45S credit.
   b. Correct. The business/employer claims the Section 45S credit.
   c. Incorrect. The business/employer claims the Section 45S credit.
   d. Incorrect. b is correct but not a.
   e. Incorrect. b is correct but not c.

Review Question 2: (Please page 21 of December JofA.)
   a. Incorrect. The Section 45S credit is available to employers with fewer than 50 employee.
   b. Incorrect. Leave pay can be for less than 12 weeks.
   c. Correct. Leave pay must equal or exceed the employee's normal wages.
   d. Incorrect. Both a and b are incorrect.
   e. Incorrect. c is correct, but not b.

Review Question 3: (Please see page 21 of December JofA.)
   a. Incorrect. The Section 45S credit is available to all employers regardless of FMLA rules.
   b. Incorrect. The Section 45S is available to employers with fewer than 50 employees.
   c. Incorrect. The Section 45S credit is available to all employers regardless of FMLA rules.
   d. Incorrect. The Section 45S is available to employers with fewer than 50 employees.
   e. Correct. The Section 45S credit is available to all employers regardless of FMLA rules.

Review Question 4. (Please see page 21 of December JofA.)
   a. Correct. The credit starts at 12.5% and caps at 25%, depending on the wage amounts paid.
   b. Incorrect. The credit starts at 12.5% and caps at 25%, depending on the wage amounts paid.
   c. Incorrect. The credit starts at 12.5% and caps at 25%, depending on the wage amounts paid.
   d. Incorrect. The credit starts at 12.5% and caps at 25%, depending on the wage amounts paid.
   e. Incorrect. The credit starts at 12.5% and caps at 25%, depending on the wage amounts paid.

Review Question 5: (Please page 21 of December JofA.)
   a. Incorrect. The Section 45S credit is available for tax years 2018 and 2019.
   b. Incorrect. The Section 45S credit is available for tax years 2018 and 2019.
   c. Correct. The Section 45S credit is available for tax years 2018 and 2019.
   d. Incorrect. The Section 45S credit is available for tax years 2018 and 2019.
   e. Incorrect. The Section 45S credit is available for tax years 2018 and 2019.

====================================== End of Section VIII.
Section IX. The Pros and Cons of LLCs (Page 52 of December *JofA*)

Section IX 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 46 through 50.

Section IX Learning Objectives:
1. To learn the reasons why LLCs are a popular choice of entity.
2. To learn how LLCs can be treated for Federal tax law.
3. To learn some of the legal aspects of LLCs and how they may differ from other entities.

Section IX Review Questions:

1. Reasons for the increased use of LLCs include:
   a. Owners have limited liability similar to that of a corporation.
   b. Owners personal income tax returns are simplified.
   d. a and b.
   e. a and c.

2. LLC formation is governed by:
   a. Federal law.
   b. IRS regulations.
   c. State law.
   d. The Revised Uniform Limited Liability Company Act (RULLCA).
   e. State professional licensing boards.

3. Under the IRS default rules, LLCs with one member:
   a. Are taxed as a sole proprietorship if an election is filed.
   b. Can elect to have the income passthrough as a C corporation.
   c. Cannot elect out of the default rule.
   d. Are disregarded for tax purposes (taxed as a sole proprietorship).
   e. Must elect to receive partnership tax treatment.

4. LLCs with more than one member can elect to be taxed:
   a. As a partnership.
   b. As an S corporation.
   c. As a C corporation.
   d. b and c but not a.
   e. a, b and c.

5. LLC operating agreements:
   a. Are filed to create the LLC.
   b. Are required to be filed with the state.
   c. Are often a brief document with little substantive information.
   d. Contain the details for operating the LLC, sometimes even defining roles for nonmembers.
   e. Are required by the IRS.

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 53 of December JofA.)
  a. Incorrect. This is part of but not the most complete answer.
  b. Incorrect. Depending on elections, the owner’s personal return would expand or be unchanged.
  c. Incorrect. This is part of but not the most complete answer.
  d. Incorrect. a is correct but not b.
  e. Correct. Both a and b are correct.

Review Question 2: (Please page 53 of December JofA.)
  a. Incorrect. LLC formation is governed by state law.
  b. Incorrect. LLC formation is governed by state law.
  c. Correct. LLC formation is governed by state law.
  d. Incorrect. LLC formation is governed by state law. The RULLCA can be adopted by a state.
  e. Incorrect. LLC formation is governed by state law.

Review Question 3: (Please see page 53 of December JofA.)
  a. Incorrect. Under the default rule, single-member LLCs are taxed as a sole proprietorship. No election is required.
  b. Incorrect. There is no income passthrough for a C corporation.
  c. Incorrect. The default rule applies only when there is not a valid election.
  d. Correct. Are disregarded for tax purposes (taxed as a sole proprietorship).
  e. Incorrect. A single-member LLC cannot be taxed as a partnership.

Review Question 4. (Please see page 53 of December JofA.)
  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. An multi-member LLC can elect to be taxed as a partnership or corporation (C or S).

Review Question 5: (Please page 54 of December JofA.)
  a. Incorrect. Articles of Organization are filed to create the LLC.
  b. Incorrect. Operating agreements are not required to be filed with the state.
  c. Incorrect. Operating agreements contain the details for operating the LLC, sometimes even defining roles for nonmembers.
  d. Correct. Operating agreements contain the details for operating the LLC, sometimes even defining roles for nonmembers.
  e. Incorrect. Operating agreements are not required by the IRS.

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