

**“Congress can raise taxes because it can persuade a sizable fraction of the populace that somebody else will pay.”  
... Milton Friedman, Economist**

**Supplementary Study Guide/Syllabus to Accompany the  
Quarterly CPE Exam on  
Topics Addressed in the *Journal of Accountancy*  
Third Quarter (Jul – Sep), 2023**

**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-III and Exam Questions 1–25 Relate to the *Journal of Accountancy* – Jul., 2023:**

Section I. Mitigating Risk of Large FBAR and International Claims (Page 6)

Section II. A Guide on When, Where and How to Blow the Whistle Safely (Page 8)

Section III. A taxonomy for Classifying Digital Assets (Page 24)

**Sections IV-V and Exam Questions 26 - 40 Relate to the *Journal of Accountancy* – Aug, 2023:**

Section IV. Peer Review Findings in Audits of Not-for -Profits: What auditors need to know (Page 19)

Section V. Preventing Fraud with Internal Controls (Page 28)

**Sections VIII and Exam Questions 41 - 50 Relate to the *Journal of Accountancy* – Sep, 2023:**

Section VI. Passive Loss Limitations on Rental Real Estate (Page 20)

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

**Section I. Mitigating Risk of Large FBAR and International Tax Claims (Page 6)**

**Section I Assignment:**

1. Study the articles (reference text) in the *Journal of Accountancy*, paying particular attention to our *Learning Objectives* stated below.
2. Answer our Review Questions that have been designed to provide an interactive learning experience.
3. Study the Solutions and Suggested Responses to the Review Questions.
4. Answer Final Exam questions 1 through 5.

**Section I Learning Objectives:**

1. Learn about various reporting requirements for foreign transactions and accounts.
2. Learn some procedures to identify these transactions to avoid penalties.

**Section I Review Questions:**

1. The author notes that most malpractice claims against CPA firms relate to \_\_\_\_\_ services:
  - a. Audit.
  - b. Monthly bookkeeping.
  - c. Tax.
  - d. Investment advisory.
  - e. Estate and trust..
2. Claims against CPAs for deficient tax services are generally limited to:
  - a. The additional tax owed.
  - b. Penalties.
  - c. Interest.
  - d. a, b and c.
  - e. b and c.
3. When taxpayers face large penalties:
  - a. The IRS usually reduces the penalty if the tax payer self-reports.
  - b. Large claims against the firm usually follow.
  - c. The IRS allows the penalty to be paid in affordable installments.
  - d. They usually relate to just a few foreign countries.
  - e. They can assume the IRS is so understaffed they generally are unable to collect.
4. One trap for tax preparers, is that \_\_\_\_\_ is generally due March 15 was often filed late.
  - a. Form 3520.
  - b. Form 3520-A.
  - c. Form 5471.
  - d. Form 5472.
  - e. Form 114.
5. While an engagement letter may limit potential liability, certain forms are part of a tax return, regardless of type of entity, which include.
  - a. Form 5471.
  - b. Form 5472.
  - c. FinCEN Form 114.
  - d. a and b.
  - e. a, b and c.

**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 6 of the July, 2023 *JofA*.)

- a. Incorrect. Tax services.
- b. Incorrect. Tax services.
- c. **Correct.** Tax services.
- d. Incorrect. Tax services.
- e. Incorrect. Tax services.

**Review Question 2.** (Please see page 6 of the July, 2023 *JofA*.)

- a. Incorrect. b and c are correct. The extra tax the taxpayer would have owed, regardless.
- b. Incorrect. This is part of, but not the most complete answer.
- c. Incorrect. This is part of, but not the most complete answer.
- d. **Correct.** b and c are correct.
- e. Incorrect. b and c are correct.

**Review Question 3:** (Please see page 6 of the July, 2023 *JofA*.)

- a. Incorrect. Large claims against the firm usually follow.
- b. **Correct.** Large claims against the firm usually follow.
- c. Incorrect. Large claims against the firm usually follow.
- d. Incorrect. Large claims against the firm usually follow.
- e. Incorrect. Large claims against the firm usually follow.

**Review Question 4.** (Please see page 7 of the July, 2023 *JofA*.)

- a. Incorrect. Form 3520-A.
- b. **Correct.** Form 3520-A.
- c. Incorrect. Form 3520-A.
- d. Incorrect. Form 3520-A.
- e. Incorrect. Form 3520-A.

**Review Question 5.** (Please see page 7 of the July, 2023 *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. a and b are correct.
- d. **Correct.** a and b are correct.
- e. Incorrect. a and b are correct.

=====End of Section I.

## Section II. A Guide on When, Where and How to Blow the Whistle Safely (Page 8)

### Section II 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 6 through 15.

### Section II Learning Objectives:

1. Learn about guidance available to help CPAs decide how to respond to noncompliance with laws and regulations (NOCLAR) in the workplace.
2. Learn about various whistle-blower laws and related provisions.

### Section II Review Questions:

1. CPAs can find NOCLAR guidance in:
  - a. Generally accepted auditing standards (GAAS).
  - b. Generally accepted accounting principles (GAAP).
  - c. AICPA *Code of Professional Conduct*.
  - d. Internal Revenue Service publications.
  - e. SEC and Commodity Futures Trading Commission rules.
2. The best practice for protecting yourself and proving wrongdoing is:
  - a. To avoid any investigating or reporting.
  - b. To report any suspicion before investigating.
  - c. Investigate as much as possible without any collaboration.
  - d. Documentation.
  - e. Resign.
3. If management has been made aware of a NCLAR event and fails the response, the CPA should:
  - a. Should cease any further consideration of the matter.
  - b. Determine what further action is necessary.
  - c. Resign.
  - d. Always proceed to the next level within the company or outside authorities.
  - e. Consider making an anonymous tip.
4. When considering the disclosure of confidential information to government authorities, the author advises the CPA to first consult their legal counsel.
  - a. True. The CPA should take extra precautions when confidential information is concerned.
  - b. False. An attorney is not necessary as all whistle-blowers are protected.
5. In the case-study of a publicly-traded retail store, the CFO dismissed NOCLAR concerns brought by a company accountant. Concluding action was needed to protect the public interest, the NOCLAR provisions allow further actions that could include :
  - a. Resigning.
  - b. Informing management of the parent company.
  - c. Reporting the matter to the appropriate regulatory authority (unless otherwise prohibited by other laws.
  - d. a and b.
  - e. a, b and c.
6. Whistle-blowing can involve dangers:
  - a. True, particularly if powerful individuals or entities are involved.
  - b. False, layers of security offer full protection.

7. Recognizing the risks whistle-blowers face, the authors encourage weighing the following factors:
  - a. Are there threats to physical safety?
  - b. Is there protection from civil, criminal or professional liability?
  - c. Is there an appropriate entity that can receive the information?
  - d. b and c.
  - e. a, b and c.
8. Under the SEC & CFTC whistle-blower programs, a whistle-blower who suffers retaliation from their employer can sue in federal court for:
  - a. Reinstatement and back pay.
  - b. Other damages.
  - c. A public apology.
  - d. a and b.
  - e. a, b and c.
9. Under the SEC CFTC whistle-blower programs, a whistle-blower can receive \_\_\_\_\_ of amounts recovered.
  - a. 10% to 15%.
  - b. 10% to 10%.
  - c. 10% to 25%.
  - d. 10% to 30%.
  - e. 10% to 35%.
10. Whistle blower-initiated cases filed under the False Claims Act have allowed the federal government to recover \_\_\_\_\_ since 1986.
  - a. \$6.3 billion.
  - b. \$9.3 billion.
  - c. \$20 billion.
  - d. \$35 billion.
  - e. \$50 billion.

**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 9 of the July, 2023 *JofA*.)

- a. Incorrect. AICPA *Code of Professional Conduct*.
- b. Incorrect. AICPA *Code of Professional Conduct*.
- c. **Correct.** AICPA *Code of Professional Conduct*.
- d. Incorrect. AICPA *Code of Professional Conduct*.
- e. Incorrect. AICPA *Code of Professional Conduct*.

**Review Question 2.** (Please see page 9 of the July, 2023 *JofA*.)

- a. Incorrect. Documentation.
- b. Incorrect. Documentation.
- c. Incorrect. Documentation.
- d. **Correct.** Documentation.
- e. Incorrect. Documentation.

**Review Question 3.** (Please see page 9 of the July, 2023 *JofA*.)

- a. Incorrect. Determine what further action is necessary.
- b. **Correct.** Determine what further action is necessary.
- c. Incorrect. Determine what further action is necessary.
- d. Incorrect. Determine what further action is necessary.
- e. Incorrect. Determine what further action is necessary.

**Review Question 4.** (Please see page 9 of the July, 2023 *JofA*.)

- a. **Correct.** The CPA should take extra precautions when confidential information is concerned.
- b. Incorrect. The CPA should take extra precautions when confidential information is concerned.

**Review Question 5.** (Please see page 10 of the July, 2023 *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.** a, b and c are correct.

**Review Question 6.** (Please see page 10 of the July, 2023 *JofA*.)

- a. **Correct.** Particularly if powerful individuals or entities are involved.
- b. Incorrect. Particularly if powerful individuals or entities are involved.

**Review Question 7.** (Please see page 10 of the July, 2023 *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.** a, b and c are correct.

**Review Question 8.** (Please see page 11 of the July, 2023 *JofA*.)

- a. **Correct.** Reinstatement and back pay.
- b. Incorrect. Reinstatement and back pay.
- c. Incorrect. Reinstatement and back pay.
- d. Incorrect. Reinstatement and back pay.
- e. Incorrect. Reinstatement and back pay.

**Review Question 9.** (Please see page 11 of the July, 2023 *JofA*.)

- a. Incorrect. 10% to 30%.
- b. Incorrect. 10% to 30%.
- c. Incorrect. 10% to 30%.
- d. **Correct.** 10% to 30%.
- e. Incorrect. 10% to 30%.

**Review Question 10.** (Please see page 11 of the July, 2023 *JofA*.)

- a. Incorrect. \$50 billion.
- b. Incorrect. \$50 billion.
- c. Incorrect. \$50 billion.
- d. Incorrect. \$50 billion.
- e. **Correct.** \$50 billion.

=====End of Section II.

### Section III. A Taxonomy for Classifying Digital Assets (Page 24)

#### 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 16 through 25.

#### Section III Learning Objectives:

1. Become familiar with various terms used to describe digital assets.
2. Learn about the different properties of various digital assets.

#### Section III Review Questions:

1. Digital assets emerged 14 years ago when bitcoin was issued by:
  - a. The US Treasury.
  - b. An anonymous creator.
  - c. A consortium of major US banks.
  - d. The Federal Reserve.
  - e. Amazon.
2. To provide proposed guidance on the accounting and disclosure for digital assets, the FASB released:
  - a. Crypto Assets (Subtopic 350-60).
  - b. Crypto Assets (Subtopic 360-50).
  - c. Crypto Assets (Subtopic 350-50).
  - d. Crypto Assets (Subtopic 330-50).
  - e. Crypto Assets (Subtopic 350-30).
3. The author's taxonomy is the authoritative classification system of digital assets for US accounting purposes.
  - a. True.
  - b. False.
4. Node validation:
  - a. Protects against theft.
  - b. Prevents unauthorized transactions.
  - c. Prevents double-spend and overspend.
  - d. a, b and c.
  - e. a and b only.
5. Every digital asset must exist on a:
  - a. Digital wallet.
  - b. A digital account.
  - c. A distributed ledger such as a blockchain.
  - d. A digital node.
  - e. Digital token.
6. Some of the properties the author considered in evaluating digital assets include.
  - a. Fungibility.
  - b. Control and issuance.
  - c. Lifespan.
  - d. Intended use.
  - e. All of the above.



7. There are two types of central bank digital currencies:
  - a. Fungible and nonfungible.
  - b. Retail and “wholesale.”
  - c. Commercial and private.
  - d. Retail and commercial.
  - e. Single use and Reusable.
8. A utility token is issued:
  - a. By public utility companies to facilitate trading of energy futures.
  - b. By central banks and enjoy wide “utility” of use.
  - c. For a specific purpose or platform.
  - d. For a single purpose but cannot be traded.
  - e. For a specific period of time and then expires.
9. Synthetics are tokens typically pegged on a 1:1 basis to:
  - a. A stock.
  - b. A commodity (gold, corn, etc).
  - c. Other derivative financial assets.
  - d. a and b.
  - e. a, b and c.
10. An example of a perpetual nonfungible tokens (NFT) would be:
  - a. A concert ticket.
  - b. An internet domain name.
  - c. Digital artwork.
  - d. Gaming items.
  - e. A barcode.

**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 25 of the July, 2023 *JofA*.)

- a. Incorrect. An anonymous creator.
- b. **Correct.** An anonymous creator
- c. Incorrect. An anonymous creator
- d. Incorrect. An anonymous creator
- e. Incorrect. An anonymous creator

**Review Question 2.** (Please see page 25 of the July, 2023 *JofA*.)

- a. **Correct.** Crypto Assets (Subtopic 350-60).
- b. Incorrect. Crypto Assets (Subtopic 350-60).
- c. Incorrect. Crypto Assets (Subtopic 350-60).
- d. Incorrect. Crypto Assets (Subtopic 350-60).
- e. Incorrect. Crypto Assets (Subtopic 350-60).

**Review Question 3.** (Please see page 25 of the July, 2023 *JofA*.)

- a. Incorrect. This is a suggested taxonomy.
- b. **Correct.** This is a suggested taxonomy.

**Review Question 4.** (Please see page 25 of the July, 2023 *JofA*.)

- a. Incorrect. Prevents double-spend and overspend.
- b. Incorrect. Prevents double-spend and overspend.
- c. **Correct.** Prevents double-spend and overspend.
- d. Incorrect. Prevents double-spend and overspend.
- e. Incorrect. Prevents double-spend and overspend.

**Review Question 5.** (Please see page 25 of the July, 2023 *JofA*.)

- a. Incorrect. A distributed ledger such as a blockchain.
- b. Incorrect. A distributed ledger such as a blockchain.
- c. **Correct.** A distributed ledger such as a blockchain.
- d. Incorrect. A distributed ledger such as a blockchain.
- e. Incorrect. A distributed ledger such as a blockchain.

**Review Question 6.** (Please see page 25 of the July, 2023 *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.** All of the above

**Review Question 7.** (Please see page 26 of the July, 2023 *JofA*.)

- a. Incorrect. Retail and commercial
- b. Incorrect. Retail and commercial
- c. Incorrect. Retail and commercial
- d. **Correct.** Retail and commercial
- e. Incorrect. Retail and commercial

**Review Question 8.** (Please see page 27 of the July, 2023 *JofA*.)

- a. Incorrect. For a specific purpose or platform.
- b. Incorrect. For a specific purpose or platform.
- c. **Correct.** For a specific purpose or platform.
- d. Incorrect. For a specific purpose or platform.
- e. Incorrect. For a specific purpose or platform.

**Review Question 9.** (Please see page 28 of the July, 2023 *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. a and b are correct, but not c.
- d. **Correct.** a and b are correct, but not c.
- e. Incorrect. a and b are correct, but not c.

**Review Question 10.** (Please see page 29 of the July, 2023 *JofA*.)

- a. Incorrect. An internet domain name.
- b. **Correct.** An internet domain name.
- c. Incorrect. An internet domain name.
- d. Incorrect. An internet domain name.
- e. Incorrect. An internet domain name.

=====End of Section III.

## **Section IV. Peer Review Findings in Audits of Not-for-Profits: What Auditors need to know**

(Page 4)

### **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 26 through 35.

### **Section IV Learning Objectives:**

1. Learn about various findings noted in peer reviews of audits of not-for-profits.
2. Learn about recommendations by experts to mitigate the findings.

### **Section IV Review Questions:**

1. The article review finds of peer reviews of not-for-profit entities from:
  - a. Jan. 1, 2020 to Dec. 31, 2020.
  - b. Jan. 1, 2021 to Oct. 31, 2021.
  - c. Jan. 1, 2021 to Oct. 31, 2022.
  - d. Jan. 1, 2021 to Dec. 31, 2022.
  - e. Jan. 1, 2022 to Dec. 31, 2022.
2. Pandemic-related challenges firms experienced during the time frame reviewed included:
  - a. Difficulty providing on-the-job training with new workers and hybrid staff.
  - b. Difficulty in finding experienced staff.
  - c. A significant decline in available not-for-profit engagements.
  - d. a and b.
  - e. a, b and c.
3. COVID-19 relief funding brought new and additional programs needing single audits. One related frustration was:
  - a. The slow processing of bids.
  - b. Compliance supplements were not issued to auditors by the OMB on a timely basis.
  - c. Lack of resource material to train new auditors.
  - d. Having to wait for payment until 90 days after completion of the engagement.
  - e. None of the above.
4. In one peer review, it was discovered the firm had:
  - a. Never performed any audits of government grants.
  - b. Outsourced the audit work to a third party, but signed the opinion letter.
  - c. Failed to get a signed engagement letter.
  - d. Had not had a peer review in the three year period before the audit.
  - e. Failed to get a signed representation letter.
5. The author notes that providing certain non audit services, such as preparation of financial statements, can pose significant risks. To mitigate the threat, one firm:
  - a. Requires a person outside of the audit team to review and approve the related procedures.
  - b. Disallows provision of nonaudit services.
  - c. Requires an unrelated third party to provide nonaudit services.
  - d. Charges a premium rate for nonaudit services.
  - e. Clears the procedures with its professional liability insurance carrier.

6. Which of the following were noted by peer reviews of audit planning and risk assessment?
  - a. The firm did not perform audit planning to consider and document items required by professional standards.
  - b. The firm did not document determination of materiality.
  - c. There were no audit programs for planning.
  - d. a and b.
  - e. a, b and c.
7. Risk assessment standards require auditors to:
  - a. Document their understanding of internal controls.
  - b. Evaluate the design and operation of internal controls.
  - c. Perform further procedures.
  - d. a, b and c.
  - e. a and c.
8. According to one CPA, failing to comply with auditing standards in the areas of internal controls and risk assessment:
  - a. Is a staff-level issue.
  - b. Is a firm-level audit practice issue.
  - c. Could result in firm censure.
  - d. Is an industry wide problem.
  - e. Is a tax practice issue.
9. The authors notes that there were significant number of peer review findings concerning documentation related to:
  - a. Audit planning.
  - b. Risk assessment.
  - c. Analytical procedures.
  - d. Materiality.
  - e. All aspects of the audit.
10. Failing to test controls for operating effectiveness in a single audit can be an audit failure.
  - a. True.
  - b. False.

**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 20 of the August, 2023 *JofA*.)

- a. Incorrect. Jan. 1, 2021 to Oct. 31, 2022.
- b. Incorrect. Jan. 1, 2021 to Oct. 31, 2022.
- c. **Correct.** Jan. 1, 2021 to Oct. 31, 2022.
- d. Incorrect. Jan. 1, 2021 to Oct. 31, 2022.
- e. Incorrect. Jan. 1, 2021 to Oct. 31, 2022.

**Review Question 2.** (Please see page 20 of the August, 2023 *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. a and b.
- d. **Correct.** a and b.
- e. Incorrect. a and b.

**Review Question 3.** (Please see page 20 of the August, 2023 *JofA*.)

- a. Incorrect. Compliance supplements were not issued to auditors by the OMB on a timely basis.
- b. **Correct.** Compliance supplements were not issued to auditors by the OMB on a timely basis.
- c. Incorrect. Compliance supplements were not issued to auditors by the OMB on a timely basis.
- d. Incorrect. Compliance supplements were not issued to auditors by the OMB on a timely basis.
- e. Incorrect. Compliance supplements were not issued to auditors by the OMB on a timely basis.

**Review Question 4.** (Please see page 21 of the August, 2023 *JofA*.)

- a. Incorrect. Had not had a peer review in the three year period before the audit.
- b. Incorrect. Had not had a peer review in the three year period before the audit.
- c. Incorrect. Had not had a peer review in the three year period before the audit.
- d. **Correct.** Had not had a peer review in the three year period before the audit.
- e. Incorrect. Had not had a peer review in the three year period before the audit.

**Review Question 5.** (Please see page 20 of the August, 2023 *JofA*.)

- a. **Correct.** Requires a person outside of the audit team to review and approve the related procedures.
- b. Incorrect. Requires a person outside of the audit team to review and approve the related procedures.
- c. Incorrect. Requires a person outside of the audit team to review and approve the related procedures.
- d. Incorrect. Requires a person outside of the audit team to review and approve the related procedures.
- e. Incorrect. Requires a person outside of the audit team to review and approve the related procedures.

**Review Question 6.** (Please see page 22 of the August, 2023 *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. a, b and c are correct.
- e. **Correct.** a, b and c are correct.

**Review Question 7.** (Please see page 22 of the August, 2023 *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. **Correct.** a, b and c.
- e. Incorrect. This is part of, but not the most complete answer.

**Review Question 8.** (Please see page 22 of the August, 2023 *JofA*.)

- a. Incorrect. Is a firm-level audit practice issue.
- b. **Correct.** Is a firm-level audit practice issue.
- c. Incorrect. Is a firm-level audit practice issue.
- d. Incorrect. Is a firm-level audit practice issue.
- e. Incorrect. Is a firm-level audit practice issue.

**Review Question 9.** (Please see page 22 of the August, 2023 *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.** Their were documentation issues related to all aspects of the audit.

**Review Question 10.** (Please see page 25 of the August, 2023 *JofA*.)

- a. **Correct.** Failing to test controls for operating effectiveness in a single audit can be an audit failure.
- b. Incorrect. Failing to test controls for operating effectiveness in a single audit can be an audit failure.

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

## **Section V. Preventing Fraud with Internal Controls: A Refresher (Page 28)**

### **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 36 through 40.

### **Section V Learning Objectives:**

1. Learn about the types and purposes of various internal controls.
2. Learn about assessing risk.

### **Section V Review Questions:**

1. Effective internal controls:
  - a. Prevent fraud.
  - b. Detect fraud.
  - c. Mitigate losses.
  - d. a, and c.
  - e. a, b and c.
2. Corrective controls:
  - a. Are put in place to prevent fraud.
  - b. Are used to discover fraud.
  - c. Are put in place after detective controls discover fraud.
  - d. Are put in place to eliminate residual risk.
  - e. Apply to human controls, not digital controls.
3. A very common fraud is:
  - a. A fictitious employee scheme.
  - b. A fictitious vendor scheme.
  - c. A fictitious customer scheme.
  - d. A fictitious login scheme.
  - e. A fictitious bank account scheme.
4. The control procedure that prevents one person from handling multiple aspects of a transaction to the point they could commit fraud is known as:
  - a. Detective controls.
  - b. Physical controls.
  - c. Segregation of controls.
  - d. Segregation of duties.
  - e. Corrective controls.
5. Anchoring an effective control system is:
  - a. Segregation of duties.
  - b. Detective controls.
  - c. Assessing risk.
  - d. Firm discipline.
  - e. A culture that values ethics.

**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 29 of the August, 2023 *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.** a, b and c are correct.

**Review Question 2.** (Please see page 29 of the August, 2023 *JofA*.)

- a. Incorrect. Are put in place after detective controls discover fraud.
- b. Incorrect. Are put in place after detective controls discover fraud.
- c. **Correct.** Are put in place after detective controls discover fraud.
- d. Incorrect. Are put in place after detective controls discover fraud.
- e. Incorrect. Are put in place after detective controls discover fraud.

**Review Question 3.** (Please see page 29 of the August, 2023 *JofA*.)

- a. Incorrect. A fictitious vendor scheme.
- b. **Correct.** A fictitious vendor scheme.
- c. Incorrect. A fictitious vendor scheme.
- d. Incorrect. A fictitious vendor scheme.
- e. Incorrect. A fictitious vendor scheme.

**Review Question 4:** (Please see page 29 of the August, 2023 *JofA*.)

- a. Incorrect. Segregation of duties.
- b. Incorrect. Segregation of duties.
- c. Incorrect. Segregation of duties.
- d. **Correct.** Segregation of duties.
- e. Incorrect. Segregation of duties.

**Review Question 5:** (Please see page 31 of the August, 2023 *JofA*.)

- a. Incorrect. A culture that values ethics.
- b. Incorrect. A culture that values ethics.
- c. Incorrect. A culture that values ethics.
- d. Incorrect. A culture that values ethics.
- e. **Correct.** A culture that values ethics.

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

## Section VI. Passive Loss Limitations on Rental Real Estate (Page 20)

### 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 41 through 50.

### Section VI Learning Objectives:

1. Learn about tax treatment of rental real estate income and losses.
2. Learn some of the rules that can allow deduction of real estate losses..

### Section VI Review Questions:

1. According to the author, clients are increasingly asking questions related to rental real estate due to:
  - a. Inheriting their parent's home.
  - b. An uptick of individuals purchasing commercial property to rent.
  - c. The popularity of publicly traded partnerships owning rental property.
  - d. The popularity of offering short-term rentals using Airbnb and Vrbo.
  - e. The popularity of business owners purchasing the the business's building and renting it back to the business.
2. Section 469 deals with:
  - a. The taxability of passive activity gains.
  - b. The deductibility of passive activity losses (PALs).
  - c. The taxability of passive capital gains.
  - d. The deductibility of active business losses.
  - e. The taxability of passive capital losses.
3. Suppose a taxpayer experiences passive activity losses (PALs) every year and never has any passive gains to offset the losses. How can the accumulated losses be deducted.
  - a. The taxpayer can deduct up to \$3,000 each year until the losses are depleted.
  - b. The taxpayer can offset the losses by the amount of capital gains realized each year.
  - c. The taxpayer can never deduct the losses.
  - d. When the property is sold, the taxpayer can reduce the cost basis of the property by the amount of accumulated losses to reduce the capital gain.
  - e. The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).
4. The “active participation” rule allows a qualifying taxpayer to deduct up to \_\_\_\_\_ of passive activity losses.
  - a. \$3,000.
  - b. \$5,000.
  - c. \$10,000.
  - d. \$20,000.
  - e. \$25,000.
5. To receive the full benefit of the “active participation” rule, adjusted gross income for a married couple filing jointly must not exceed:
  - a. \$25,000.
  - b. \$100,000.
  - c. \$150,000.
  - d. \$200,000.
  - e. \$250,000.

6. The determination of whether a short-term rental activity is passive or nonpassive depends on whether the individual:
  - a. Meets the self-rental rule.
  - b. Qualifies as a real estate professional.
  - c. Materially participated in the activity.
  - d. Is the majority owner of the property.
  - e. Worked more than 750 hours in real estate.
7. For taxpayers qualifying under the self-rental rules, how are losses treated?
  - a. They are treated as passive, subject to the PAL rules.
  - b. They are deductible to the extent of nonpassive gains.
  - c. They are deductible to the extent of long term capital gains.
  - d. They can be deducted only against gains from self-rentals.
  - e. They are deductibility regardless of other income.
8. To qualify as a real estate professional, a taxpayer must satisfy the time requirements working in which of the following jobs?
  - a. Real property development, construction, acquisition or redevelopment.
  - b. Real property rentals, leasing, management or brokerage.
  - c. Real property financing, refinancing and second mortgage lending.
  - d. a, b and c.
  - e. a and b only.
9. Which of the following would likely not help a real estate professional prove “material participation?”
  - a. Taxpayer participates in the activity for more than 500 hours during the tax year.
  - b. Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.
  - c. Taxpayer spends more than 100 hours each year and that is more than any other individual, including nonowners.
  - d. Taxpayer spends about 100 hours per year on each of six properties and elects to treat all properties as a single activity under Sec.469(c)(7).
  - e. None of the above.
10. Which of the following could be counted as “participation” in the rental real estate activity?
  - a. Work performed by the owner.
  - b. Infrequent work performed by an investor.
  - c. Work performed by the owner's spouse.
  - d. a, b and c.
  - e. a and c only.

**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 20 of the September, 2023 *JofA*.)

- a. Incorrect. The popularity of offering short-term rentals using Airbnb and Vrbo.
- b. Incorrect. The popularity of offering short-term rentals using Airbnb and Vrbo.
- c. Incorrect. The popularity of offering short-term rentals using Airbnb and Vrbo.
- d. **Correct.** The popularity of offering short-term rentals using Airbnb and Vrbo.
- e. Incorrect. The popularity of offering short-term rentals using Airbnb and Vrbo.

**Review Question 2.** (Please see page 20 of the September, 2023 *JofA*.)

- a. Incorrect. The deductibility of passive activity losses.
- b. **Correct.** The deductibility of passive activity losses.
- c. Incorrect. The deductibility of passive activity losses.
- d. Incorrect. The deductibility of passive activity losses.
- e. Incorrect. The deductibility of passive activity losses.

**Review Question 3.** (Please see page 21 of the September, 2023 *JofA*.)

- a. Incorrect. The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).
- b. Incorrect. The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).
- c. Incorrect. The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).
- d. Incorrect. The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).
- e. **Correct.** The taxpayer can deduct all of the accumulated losses when the property is disposed in a fully taxable transaction (usually an outright sale).

**Review Question 4:** (Please see page 21 of the September, 2023 *JofA*.)

- a. Incorrect. \$25,000.
- b. Incorrect. \$25,000.
- c. Incorrect. \$25,000.
- d. Incorrect. \$25,000.
- e. **Correct.** \$25,000.

**Review Question 5:** (Please see page 21 of the September, 2023 *JofA*.)

- a. Incorrect. \$100,000.
- b. **Correct.** \$100,000.
- c. Incorrect. \$100,000.
- d. Incorrect. \$100,000.
- e. Incorrect. \$100,000.

**Review Question 6.** (Please see page 21 of the September, 2023 *JofA*.)

- a. Incorrect. Materially participated in the activity.
- b. Incorrect. Materially participated in the activity.
- c. **Correct.** Materially participated in the activity.
- d. Incorrect. Materially participated in the activity.
- e. Incorrect. Materially participated in the activity.

**Review Question 7.** (Please see page 22 of the September, 2023 *JofA*.)

- a. **Correct.** They are treated as passive, subject to the PAL rules.
- b. Incorrect. They are treated as passive, subject to the PAL rules.
- c. Incorrect. They are treated as passive, subject to the PAL rules.
- d. Incorrect. They are treated as passive, subject to the PAL rules.
- e. Incorrect. They are treated as passive, subject to the PAL rules.

**Review Question 8.** (Please see page 22 of the September, 2023 *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. a and b only.
- d. Incorrect. a and b only.
- e. **Correct.** a and b only.

**Review Question 9.** (Please see page 23 of the September, 2023 *JofA*.)

- a. Incorrect. Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.
- b. **Correct.** Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.
- c. Incorrect. Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.
- d. Incorrect. Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.
- e. Incorrect. Taxpayer spends about 80 hours performing nearly all of the maintenance and also uses a professional management company for other services.

**Review Question 10.** (Please see page 24 of the September, 2023 *JofA*.)

- a. Incorrect. This is part of, but not the most complete answer.
- b. Incorrect. a and c only.
- c. Incorrect. This is part of, but not the most complete answer.
- d. Incorrect. a and c only.
- e. **Correct.** a and c only.

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