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Question 1

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

In 1992, Joan received an acre of land as an inter-vivos gift from her grandfather. At the time of the gift, the land had a fair market value of $50,000. The grandfather's adjusted basis was $60,000. Joan sold the land in 1994 to an unrelated third party for $56,000.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

A

Explanation:

'A' is correct. $0. Property received by gift has two bases: one for computing gain and another for computing loss. Joan's basis for gain is the grandfather's adjusted basis ($60,000). Using this basis for gain, Joan has a loss of: $56,000 - $60,000 = ($4,000 loss). Joan's basis for loss is the fair market value of the property on the date of the gift ($50,000). Using this basis for loss, Joan has a gain of: $56,000 - $50,000 = $6,000 gain. In this unusual situation, Joan has neither a gain nor a loss, although the transaction must be reported.

Question 2

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

The Moores had no capital loss carryovers from prior years. During 1994, the Moores had the following stock transactions, which resulted in a net capital loss:

	Date acquired	*Date sold*	*Sales price*	*Cost*
Revco	2/1/93	3/17/94	$15,000	$25,000
Abbco	2/18/94	4/1/94	8,000	4,000

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

J

Explanation:

'J' is correct. $3,000. The capital loss on Revco ($10,000 loss) is added to the capital gain on Abbco ($4,000) to produce a net capital loss of ($6,000). The Moores can claim $3,000 of the loss on their 1994 income tax return and carry the balance forward to 1995.

Question 3

Question Type: **MultipleChoice**

Elm Corp. is an accrual-basis calendar-year C corporation with 100,000 shares of voting common stock issued and outstanding as of December 28, 1996. On Friday, December 29, 1996, Hall surrendered 2,000 shares of Elm stock to Elm in exchange for $33,000 cash. Hall had no direct or indirect interest in Elm after the stock surrender. Additional information follows:

Hall's adjusted basis in 2,000 shares of Elm on December 29, 1996 ($8 per share)	16,000
Elm's accumulated earnings and profits at January 1, 1996	25,000
Elm's 1996 net operating loss.	(7,000)

What amount of income did Hall recognize from the stock surrender?

Options:

A- $33,000 dividend.

B- $25,000 dividend.

C- $18,000 capital gain.

D- $17,000 capital gain.

Answer:

D

Explanation:

Choice 'd' is correct. $17,000 capital gain.

Amount realized:

Sale price of 2,000 shares of Elm shares	$33,000
Adjusted basis of stock (2,000 shares @ $8)	(16,000)
Gain realized	$17,000

Choices 'a' and 'b' are incorrect. Dividends are distributions of earnings. These proceeds are from the sale of stock.

Choice 'c' is incorrect, per above. Accumulated earnings and profits do not effect the gain calculation, they only affect the taxability of dividends paid to shareholders.

Question 4

Question Type: MultipleChoice

The uniform capitalization method must be used by:

I Manufacturers of tangible personal property.

II Retailers of personal property with $2 million dollars in average annual gross receipts for the 3 preceding years.

Options:

A- I only.

B- II only.

C- Both I and II

D- Neither I nor II

Answer:

A

Explanation:

Choice 'a' is correct. I only.

Rule: The uniform capitalization rules apply to the following:

1. Real or tangible personal property produced by the taxpayer for use in a trade or business.

2. Real or tangible personal property produced by the taxpayer for sale to customers.

3. Real or personal property acquired by the taxpayer for resale.

4. However, the uniform capitalization rules do not apply to property acquired for resale if the taxpayer's annual gross receipts for the preceding three tax years do not exceed $10,000,000 (not $2 million).

Question 5

Question Type: MultipleChoice

Hall, a divorced person and custodian of her 12-year old child, filed her 1990 federal income tax return as head of a household. She submitted the following information to the CPA who prepared her 1990 return:

* In 1990, Hall sold an antique that she bought in 1980 to display in her home. Hall paid $800 for the antique and sold it for $1,400, using the proceeds to pay a court ordered judgment.

The $600 gain that Hall realized on the sale of the antique should be treated as:

Options:

A- Ordinary income.

B- Long-term capital gain.

C- An involuntary conversion.

D- A nontaxable antiquities transaction.

Answer:

B

Explanation:

Choice 'b' is correct. The gain should be treated as a long-term capital gain because the property was held for more than one year and was sold for more than it cost.

Choice 'a' is incorrect. Because Hall was not in the business of selling antiques, the profit from the sale will be treated as a gain from the disposition of a capital asset, not ordinary income.

Choice 'c' is incorrect. This transaction does not qualify as an involuntary conversion. In order to be treated as an involuntary conversion, the transaction must result from a condemnation of property or a destruction or loss from theft or casualty.

Choice 'd' is incorrect. An obvious distracter.

Question 6

Question Type: MultipleChoice

For a cash basis taxpayer, gain or loss on a year-end sale of listed stock arises on the:

Options:

A- Trade date.

B- Settlement date.

C- Date of receipt of cash proceeds.

D- Date of delivery of stock certificate.

Answer:

A

Explanation:

Choice 'a' is correct. Trade date.

Gain or loss on a year-end sale of listed stock arises on the trade date.

Rule: Whether on the cash or accrual method of accounting taxpayers who sell stock or securities on an established securities market must recognize gains and losses on the trade date, rather than on the settlement date.

Choices 'b', 'c', and 'd' are incorrect, per the above rule.

Question 7

Question Type: MultipleChoice

Fred Berk bought a plot of land with a cash payment of $40,000 and a mortgage of $50,000. In addition, Berk paid $200 for a title insurance policy. Berk's basis in this land is:

Options:

A- $40,000

B- $40,200

C- $90,000

D- $90,200

Answer:

D

Explanation:

Choice 'd' is correct. $90,200 is Berk's basis in the land.

Rule: The basis of the property acquired will be the property's cost consisting of the amount of cash paid plus any amount of related debt assumed. Cost will be adjusted to reflect any additional costs incurred in purchasing the property.

Cash payment	$40,000
Related debt	50,000
Purchase price	$90,000
Add: Cost of title policy	200
Total basis in the land	$90,200

Choices 'a', 'b', and 'c' are incorrect, per the above rule.

Question 8

Question Type: MultipleChoice

On December 31, 1989, a building owned by Pine Corp. was totally destroyed by fire. The building had fire insurance coverage up to $500,000. Other pertinent information as of December 31, 1989 follows:

Building, carrying amount	$520,000
Building, fair market value	550,000
Removal and clean-up cost	10,000

During January 1990, before the 1989 financial statements were issued, Pine received insurance proceeds of $500,000. On what amount should Pine base the determination of its loss on involuntary conversion?

Options:

A- $520,000

B- $530,000

C- $550,000

D- $560,000

Answer:

B

Explanation:

Choice 'b' is correct. $530,000 basis of involuntary converted building.

Building carrying amount	$520,000
Removal and clean up cost	10,000
Basis of involuntary conversion	$530,000
Insurance proceeds	(500,000)
Loss on involuntary conversion	$ 30,000