**Acct 6110. Final Exam.**

**Fall, 2012. The University of North Carolina at Charlotte.**

Student Number\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Do not put name on any page of this test)

INSTRUCTIONS: You may use your Code Book and Fin-48 during the test.

Please complete the following form, if you have new information since you completed a form on the mid-term exam in this Research class. Thank you.



**Multiple-Choice (40 Points) Put your answers in the grid on page 4.**

Bill (age 37) is an employee of Charlotte Corporation. In the current year, the corporation provides Bill with $40,000 of group‑term life insurance coverage. How much must Bill include in income due to the policy?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $800.  | **b.**  |  $600.  | **c.** | $54.  | **d.** | $0.  | **e.** | $1,000. |  |  |

The Charlotte Corporation provides this information at the end of 2012.

|  |  |  |
| --- | --- | --- |
| Sales (All on credit) |  | $100,000 |
| Expenses other than bad debts | $80,000 |  |
| Bad debts (Provision-5% of Sales) | 5,000 |  |
| Total Expenses |  | 85,000 |
| Net Income before Taxes |  | $15,000 |
|  | **Beginning** | **Ending** |
| Accounts Receivable | $80,000 | $ 85,000 |
| Allowance for Bad Debts | $ 5,000 | $ 6,000 |
| What is Charlotte Corporation’s taxable Income for 2012? |
| **a.** | $15,000 | **b.** | $17,000 | **c.** | $16,000 | **d.**  | $14,000 | **e.** | $13,000 |  |

Tiger Woods exchanges business equipment with FMV of $400,000 and an adjusted basis of $360,000 for:
(1) $16,000 cash and (2) new like-kind business equipment with a FMV of $384,000.
Tiger's recognized gain is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $16,000 | **c.** | $24,000 | **d.**  | $120,000 | **e.** | Other  |  |

Tiger Woods exchanges business equipment with FMV of $400,000 and an adjusted basis of $360,000 for:
(1) $16,000 cash and (2) like-kind equipment with a FMV of $384,000.
What is Tiger's basis in the new equipment?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $384,000 | **c.** | $376,000 | **d.**  | $360,000 | **e.** | $400,000 |  |

Ann's business building is destroyed in a fire. Ann's adjusted basis in the building is $50,000, and its FMV is $103,000. Ann received insurance proceeds $100,000. In that same year, Ann invests $98,000 of the insurance proceeds in another business building. If an election is made, Ann will recognize gain of:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,000 | **c.** | $2,000 | **d.**  | $50,000 | **e.** | Other amount |  |

Ann's business building is destroyed in a fire. Ann's adjusted basis in the building is $50,000, and its FMV is $103,000. Ann received insurance proceeds $100,000. In that same year, Ann invests $98,000 of in another business building. If an election is made, what is Ann’s basis of the new property?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $100,000 | **d.**  | $101,000 | **e.** | $51,000 |  |

Darin incorporated his sole proprietorship by transferring his building with a basis of $800,000 to the Good Corp. in exchange for all its stock. The stock was worth $1,100,000. The building had a value of $1,200,000 and was subject to a $100,000 mortgage which was assumed by Good Corp. What was the gain realized by Darin?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

Repeat the preceding question. What is the gain to be recognized by Darin?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $380,000 | **c.** | $400,000 | **d.** | $1,200,000 | **e.** | Other |  |

Repeat the preceding question. What is Darin’s basis in the stock received?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $700,000 | **b.** | $800,000 | **c.** | $840,000 | **d.** | $1,200,000 | **e.** | Other |  |

Repeat the preceding question. What is Good Corporation’s basis in the building?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $700,000 | **b.** | $800,000 | **c.** | $840,000 | **d.** | $1,200,000 | **e.** | Other |  |

Peggy contributed property to a new partnership in return for a 40% interest in capital and profits.
The property had a fair market value of $10,000, an adjusted basis of $6,000. The property was subject to a $9,000 mortgage which was assumed by the partnership. What was Peggy’s recognized gain?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $4,000 | **d.** | $6,000 | **e.** | Other |  |

**Use the following information for Local Corporation for the next 4 questions.**

**Assume the corporation is in the 40% bracket for all years.**



What is Local Corporation’s GAAP net income before income tax?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $200,000 | **b.** | $150,000 | **c.** | $90,000 | **d.** | $60,000 | **e.** | Other |  |  |

What is Local Corporation’s Taxable Income?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $200,000 | **b.** | $150,000 | **c.** | $90,000 | **d.** | $60,000 | **e.** | Other |  |  |

What is the balance in Local Corporation’s deferred income tax asset account on December 31, 2012?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $40,000 | **b.** | $12,000 | **c.** | $24,000 | **d.** | $36,000 | **e.** | Other |  |  |

Charlotte Corporation earns book net income before tax of $600,000 in 2012.

Book net income before tax of $600,000 includes municipal bond interest income of $50,000.
Charlotte acquires a depreciable asset in 2012 and first year book depreciation on that asset is $100,000 on its GAAP statements and $200,000 on its tax return. Assume the U.S. tax rate is 35%.
Charlotte has no other temporary or permanent differences. There is no state, local or foreign income tax.

What is Charlotte’s deferred income tax liability reported on its financial statements for 2012?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $35,000 | **b.** | $52,500 | **c.** | $70,000 | **d.**  | $42,000 | **e.** | Other |  |

 On 1-2-11, BigCo gave 1,000 shares of its restricted stock to Karen.

Karen’s cost of the stock is zero. On 1-2-11, BigCo stock was selling for $10 per share.
Karen is not allowed to sell the stock until 1-2-14.
If she resigns from her position with BigCo before 1-2-14, she must give the stock back to BigCo.
In 2016, Karen will sell all of the stock for $70 per share.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Information** | **Shares** | **FMV-Share** | **FMV-Total** |
| 1-2-11 | Karen is given BigCo. Restricted Stock at no cost | 1,000 | $10 | $10,000 |
| 1-2-14 | The restrictions on sale of the stock lapse | 1,000 | $30 | $30,000 |
| 1-2-16 | Karen sells 1,000 shares at FMV | 1,000 | $70 | $70,000 |

What income is recognized by Karen in the following years?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011** |  | **2014** |  | **2016** |
| **a.** | $0 |  | $30,000 |  | $40,000 |
| **b.** | $0 |  | $0 |  | $70,000 |
| **c.** | $10,000 |  | $20,000 |  | $40,000 |

 **Repeat the preceding question.** In what years will the employer get a tax deduction?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011** |  | **2014** |  | **2016** |
| **a.** | Yes |  | No |  | No |
| **b.** | No |  | Yes |  | No |
| **c.** | No |  | Yes |  | Yes |

 **Repeat the preceding question. Karen makes a section 83(b) election**

What income is recognized by Karen in the following years?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011** |  | **2014** |  | **2016** |
| **a.** | $0 |  | $30,000 |  | $40,000 |
| **b.** | $0 |  | $0 |  | $70,000 |
| **c.** | $10,000 |  | $20,000 |  | $40,000 |
| **d.** | $10,000 |  | $0 |  | $60,000 |

Bob is has a foreign job assignment in the United Kingdom. Bob earns $20,000 per month. He arrives in the UK on January 1, 2012 and returns to the United States on July 1, 2013. Do not be concerned about the amount of his housing cost exclusion for this question.
How much earned income exclusion does he have for 2013? (choose nearest answer)

1. None b. $95,100 c. $47,550

Which would you prefer?

|  |  |
| --- | --- |
| **a.** | To have the Flu |
| **b.**  | To have a flat tire on your auto |
| **c.** | To get a good grade on this test |

**Enter Multiple-Choice answers**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1** | **D** |  | **6** | **B** |  | **11** | **A** |  | **16** | **A** |
| **2** | **C** |  | **7** | **C** |  | **12** | **C** |  | **17** | **B** |
| **3** | **B** |  | **8** | **A** |  | **13** | **E** |  | **18** | **D** |
| **4** | **D** |  | **9** | **A** |  | **14** | **C** |  | **19** | **C** |
| **5** | **C** |  | **10** | **B** |  | **15** | **A** |  | **20** | **C** |

**Part 2. Statements of Standards for Tax Services (20 Points)**

In a meeting with your new client, you learned the following. He purchased a building for use in his unincorporated business at a cost of $400,000. He used the building in his business for several years and claimed substantial depreciation. Two years ago, he incorporated the business and transferred the building to the new corporation in exchange for all of the stock of the corporation (in a section 351 exchange). He recorded the building on the books at its fair market value of $1,000,000, and has started claiming depreciation expense on the corporate tax return, based on the book value of $1,000,000.

What are your responsibilities (as a CPA, tax adviser) under Statements on Standards for Tax Services, when you discover that a client has filed a tax return containing an error?

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Continue with the information in Part 2.

What accuracy related penalties in the Internal Revenue Code may apply to you, in this case (if you continue computing depreciation based on a book value of $1,000,000)?

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**Part 3. Uncertain Positions (20 Points)**

Your client will take a tax deduction of $50,000 for the cost of sending employees to a national convention. It is possible that the IRS may disallow the deduction because a substantial number of the speakers provided information about how to lobby Congress to get then to pass a bill is favorable for the client’s industry?

You think there is a 55% chance that the IRS will allow $20,000 deduction, a 45% chance they will allow the full deduction. You may assume the client is in the 40% bracket.

Please prepare the journal entry needed for this uncertain position.

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In later years, what events may allow you to remove this liability from the books? Please cite page and paragraph number to support your answer.

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