

Recently Released CPA Problems

(The first 28 questions deal with topics covered in our accounting and tax courses. Text page numbers have been added for question no. 1 and some others.)

Tax 1 Course – Individuals

1. In the current year Jensen had the following items:

Salary	\$50,000
Inheritance	25,000
Alimony from ex-spouse	12,000
Child support from ex-spouse	9,000
Capital loss on investment stock sale	(6,000)

What is Jensen's AGI for the current year?

- a** \$44,000 **b** \$59,000 **c** \$62,000 **d** \$84,000 (R/07, REG, 0892T, 8448)

Tax 1 – Textbook – 2008, Pages 9-12, 108-9, 264, 267, 269, 279.

2. Cassidy, an individual, reported the following items of income and expense during the current year:

Salary	\$50,000
Alimony paid to a former spouse	10,000
Inheritance from a grandparent	25,000
Proceeds of a lawsuit for physical injuries	50,000

What is the amount of Cassidy's adjusted gross income?

- a** \$ 40,000 **b** \$ 50,000 **c** \$115,000 **d** \$125,000 (R/07, REG, 1168T, 8430)

3. Robert had current-year adjusted gross income of \$100,000 and potential itemized deductions as follows:

Medical expenses (before percentage limitations)	\$12,000
State income taxes	4,000
Real estate taxes	3,500
Qualified housing and residence mortgage interest	10,000
Home equity mortgage interest (used to consolidate personal debts)	4,500
Charitable contributions (cash)	5,000

What are Robert's itemized deductions for alternative minimum tax?

- a** \$17,000 **b** \$19,500 **c** \$21,500 **d** \$25,500 (R/07, REG, 0821T, 8447)

4. Gibson purchased stock with a fair market value of \$14,000 from Gibson's adult child for \$12,000. The child's cost basis in the stock at the date of sale was \$16,000. Gibson sold the same stock to an unrelated party for \$18,000. What is Gibson's recognized gain from the sale?

- a** \$0 **b** \$2,000 **c** \$4,000 **d** \$6,000 (R/07, REG, 1291T, 8433)

Tax 1 – Textbook – 2008, Page 291.

5. Wilson, CPA, uses a commercial tax software package to prepare clients' individual income tax returns. Upon reviewing a client's computer-generated year-1 itemized deductions, Wilson discovers that the schedule's deductible investment interest expense is less than the amount paid by the taxpayer and the amount that Wilson entered into the computer. After analyzing the entire tax return, Wilson determines that the computer-generated investment interest expense deduction is correct. Why is the computer-generated investment interest expense deduction correct?

- I** The client's investment interest expense exceeds net investment income.
II The client's qualified residence interest expense reduces the deductible amount of investment interest expense.

- a** I only **b** II only **c** Both I and II **d** Neither I nor II (R/07, REG, 0577T, 8426)

Tax 1 – Textbook – 2008, Page 457.

6. How may taxes paid by an individual to a foreign country be treated?
- As an itemized deduction subject to the 2% floor
 - As a credit against federal income taxes due
 - As an adjustment to gross income
 - As nondeductible

(R/07, REG, AO498T, 8439)

7. Which of the following is subject to the Uniform Capitalization Rules of Code §263A?
- Editorial costs incurred by a freelance writer
 - Research and experimental expenditures
 - Mine development and exploration costs
 - Warehousing costs incurred by a manufacturing company with \$12 million in annual gross receipts

(R/07, REG, C03295R, 8459)

8. Rock Crab, Inc. purchases the following assets during the year:

Computer	\$ 3,000
Computer desk	1,000
Office furniture	4,000
Delivery van	25,000

What should be reported as the cost basis for MACRS five-year property?

- a** \$ 3,000 **b** \$25,000 **c** \$28,000 **d** \$33,000 (R/07, REG, C03310R, 8460)

Tax 1 – Textbook – 2008, Page 235.

9. An individual had the following capital gains and losses for the year:

Short-term capital loss \$70,000

Long-term gain (unrecaptured §1250 at 25%)	56,000
Collectibles gain (28% rate)	10,000
Long-term gain (15% rate)	20,000

What will be the net gain (loss) reported by the individual and at what applicable tax rate(s)?

- Long-term gain of \$16,000 at the 15% rate.
- Short-term loss of \$3,000 at the ordinary rate and long-term capital gain of \$86,000 at the 15% rate
- Long-term capital gain of \$3,000 at the 15% rate, collectibles gain of \$10,000 at the 28% rate, and Section 1250 gain of \$56,000 at the 25% rate
- Short-term loss of \$3,000 at the ordinary rate, long-term capital gain of \$10,000 at the 15% rate, collectibles gain of \$10,000 at the 28% rate, and Section 1250 gain of \$56,000 at the 25% rate

(R/07, REG, C03328R, 8461)

Tax 1 – Textbook – 2008, Page 292.

Tax 1 Course – Corporations (Also Corporate Tax course)

10. Beta, a C corporation, reported the following items of income and expenses for the year:

Gross income	\$600,000
Dividend income from a 30% owned domestic corporation	100,000
Operating expenses	400,000

What is Beta's taxable income for the year?

- a** \$200,000 **b** \$220,900 **c** \$230,000 **d** \$300,000 (R/07, REG, 1233T, 8432)

11. A corporation that has both preferred and common stock has a deficit in accumulated earnings and profits at the beginning of the year. The current earnings and profits are \$25,000. The corporation makes a dividend distribution of \$20,000 to the preferred shareholders and \$10,000 to the common shareholders. How will the preferred and common shareholders report these distributions?

- | | Preferred | Common |
|----|----------------------------|--|
| a. | \$20,000 dividend income | \$10,000 dividend income |
| b. | \$20,000 dividend income | \$5,000 dividend income, \$5,000 return of capital |
| c. | \$15,000 dividend income | \$10,000 dividend income |
| d. | \$20,000 return of capital | \$10,000 return of capital |
- (R/07, REG, A1256T, 8441)

12. Taylor owns 1,000 shares of Media Corporation common stock with a basis of \$22,000 and a fair market value of \$33,000. Media paid a nontaxable 10% common stock dividend. What is the basis for each share of Media common stock owned by Taylor after receipt of the dividend?

- a \$20 b \$22 c \$30 d \$33 (R/07, REG, 1191T, 8431)

13. A C corporation must use the accrual method of accounting in which of the following circumstances?

- a. The business had average sales for the past three years of less than \$1 million.
- b. The business is a service company and has over \$1 million in sales.
- c. The business is a personal service business with over \$15 million in sales.
- d. The business has more than \$10 million in average sales.

(R/07, REG, A1248T, 8440)

Tax 1 Course – Partnerships (Also Corporate Tax course)

14. Walker transferred property used in a sole proprietorship to the WXYZ partnership in exchange for a one-fourth interest. The property had an original cost of \$75,000, an adjusted tax basis to Walker of \$20,000, and fair market value of \$50,000. The partnership has no liabilities. What is Walker's basis in the partnership interest?

- a \$0 b \$20,000 c \$50,000 d \$75,000 (R/07, REG, 1102T, 8428)

15. Reid, Welsh, and May are equal partners in the RWM partnership. Reid's basis in the partnership interest is \$60,000. Reid receives a liquidating distribution of \$61,000 cash and land with a fair market value of \$14,000 and an adjusted basis of \$12,000. What gain must Reid recognize upon the liquidation of his partnership interest?

- a \$0 b 1,000 c \$13,000 d \$15,000 (R/07, REG, 1135T, 8450)

16. Olson, Wayne, and Hogan are equal partners in the OWH partnership. Olson's basis in the partnership interest is \$70,000. Olson receives a liquidating distribution of \$10,000 cash and land with a fair market value of \$63,000, and a basis of \$58,000. What is Olson's basis in the land?

- a \$58,000 b \$60,000 c \$63,000 d \$70,000 (R/07, REG, 1133T, 8429)

17. The at-risk limitation provisions of the Internal Revenue Code may limit

- I A partner's deduction for his or her distributive share of partnership losses
- II A partnership's net operating loss carryover

- a I only b II only c Both I and II d Neither I nor II (R/07, REG, 0340T, 8445)

18. On December 31, after receipt of his share of partnership income, Clark sold his interest in a limited partnership for \$30,000 cash and relief of all liabilities. On that date, the adjusted basis of Clark's partnership interest was \$40,000, consisting of his capital account of \$15,000 and his share of the partnership liabilities of \$25,000. The partnership has no unrealized receivables or substantially appreciated inventory. What is Clark's gain or loss on the sale of his partnership interest?

- a. Ordinary loss of \$10,000
- b. Ordinary gain of \$15,000
- c. Capital loss of \$10,000
- d. Capital gain of \$15,000

(R/07, REG, 0801T, 8446)

Tax 1 Course – S Corporations (Also Corporate Tax)

19. Evan, an individual, has a 40% interest in EF, an S corporation. At the beginning of the year, Evan's basis in EF was \$2,000. During the year, EF distributed \$100,000 and reported operating income of \$200,000. What amount should Evan include in gross income?

- a \$ 38,000 b \$ 40,000 c \$ 80,000 d \$118,000 (R/07, REG, 1513T, 8453)

20. Magic Corp., a regular C corporation, elected S corporation status at the beginning of the current calendar year. It had an asset with a basis of \$40,000 and a fair market value (FMV) of \$85,000 on January 1. The asset was sold during the year for \$95,000. Magic's corporate tax rate was 35%.

What was Magic's tax liability as a result of the sale?

- a \$0 b \$ 3,500 c \$15,750 d \$19,250 (R/07, REG, A0277T, 8457)

Tax 1 Course – Estate and Gift

21. Which of the following is an attribute of a complex trust?

- a. It distributes income to more than one beneficiary.
- b. It has a grantor that is not an individual.
- c. It has a beneficiary that is not an individual.
- d. It distributes corpus.

(R/07, REG, 1799T, 8434)

22. Brown transfers property to a trust. A local bank was named trustee. Brown retained no powers over the trust. The trust instrument provides that current income and \$6,000 of principal must be distributed annually to the beneficiary. What type of trust was created?

- a. Simple
- b. Grantor
- c. Complex
- d. Revocable.

(R/07, REG, 1797T, 8454)

23. Under the uniform capitalization rules applicable to taxpayers with property acquired for resale, which of the following costs should be capitalized with respect to inventory if no exceptions have been met?

	Repackaging costs	Off-site storage costs
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

(R/07, REG, 0361T, 8463)

Tax Research and Practice (Also Tax I)

24. Professional rules and ethics for CPA tax practitioners that are merely advisory, rather than having formal administrative authority, include which of the following sources?

- a. AICPA Code of Professional Conduct
- b. AICPA Statements on Responsibilities in Tax Practice
- c. Internal Revenue Code
- d. Treasury Department Practice Rules (Circular 230)

(R/07, REG, A0517L, 8458)

Raabe – Textbook – 7th edition, Page 18. Note that SRTP have been replaced by SSTS.

25. Martinsen, a calendar-year individual, files a year 1 tax return on March 31, year 2. Martinsen reports \$20,000 of gross income. Martinsen inadvertently omits \$500 interest income. The IRS may assess additional tax up until which of the following dates?

- a. March 31, year 5
- b. April 15, year 5
- c. March 31, year 8
- d. April 15, year 8

(R/07, REG, CO0821 R, 8444)

Raabe – Textbook – 7th edition, Page 464.

Auditing

26. A CPA firm must do which of the following before it can participate in the preparation of an audit report of a company registered with the Securities and Exchange Commission (SEC)?

- a. Join the SEC Practice Section of the AICPA
- b. Register with the Public Company Accounting Oversight Board
- c. Register with the Financial Accounting Standards, Board (FASB)
- d. Register with the SEC pursuant to the Securities Exchange Act of 1934

(R/07, REG, C03934R, 8462)

27. Under which of the following circumstances may a CPA charge fees that are contingent upon finding a specific result?

- a. For an examination of prospective financial statements
- b. For an audit or a review if agreed upon by both the CPA and the client
- c. For a compilation if a third party will use the financial statement and disclosure is not made in the report
- d. If fixed by courts, other public authorities, or in tax matters if based on the results of judicial proceedings

(R/07, REG, C01362R, 8442)

28. According to the ethical standards of the profession, a CPA's independence would most likely be impaired if the CPA

- a. Accepted any gift from a client
- b. Became a member of a trade association that is a client
- c. Contracted with a client to supervise the client's office personnel
- d. Served, with a client bank, as a cofiduciary of an estate or trust

(R/07, REG, 0364L, 8443)

Business Law

29. The Securities Act of 1933 provides an exemption from registration for

	Bonds issued by a municipality for governmental purposes	Securities issued by a not-for-profit charitable organization
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

(R/07, REG, 0327L, 8425)

30. Which of the following requirements must be met, by any type of deed, in order for title to real property to be transferred?

- a. The deed must be delivered to the purchaser of the property.
- b. The deed must be recorded by the seller of the property.
- c. The deed must include a statement of the property's value.
- d. The deed must include a general warranty of title.

(R/07, REG, 1054L, 8427)

31. Thorn purchased a used entertainment system from Sound Corp. The sales contract stated that the entertainment system was being sold "as is." Under the Sales Article of the UCC, which of the following statements is (are) correct regarding the seller's warranty of title and against infringement?

- I Including the term "as is" in the sales contract is adequate communication that the seller is conveying the entertainment system without warranty of title and against infringement.
 - II The seller's warranty of title and against infringement may be disclaimed at any time after the contract is formed.
- a. I only b. II only c. Both I and II d. Neither I nor II

(R/07, REG, 1850L, 8435)

32. Which of the following circumstances is a defense to an accountant's liability under Section 11 of the Securities Act of 1933 for misstatements and omissions of material facts contained in a registration statement?

- a. The absence of scienter on the part of the accountant
- b. The absence of privity between purchasers and the accountant
- c. Due diligence on the part of the accountant
- d. Nonreliance by purchasers on the misstatements

(R/07, REG, 2359L, 8438)

33. Under the Negotiable Instruments Article of the UCC, which of the following instruments meets the negotiability requirement of being payable on demand or at a definite time?

- a. A promissory note payable one year after a person's marriage
- b. A promissory note payable June 30, year 1, whose holder can extend the time of payment until the following June 30 if the holder wishes
- c. A promissory note payable June 30, year 1, whose maturity can be extended by the maker for a reasonable time
- d. An undated promissory note payable one month after date

(R/07, REG, 1988L, 8436)

34. Which of the following promises is supported by legally sufficient consideration and will be enforceable?

- a. A person's promise to pay a real estate agent \$1,000 in return for the real estate agent's earlier act of not charging commission for selling the person's house
- b. A parent's promise to pay one child \$500 because that child is not as wealthy as the child's sibling
- c. A promise to pay the police \$250 to catch a thief
- d. A promise to pay a minor \$500 to paint a garage

(R/07, REG, 2054L, 8437)

35. Grill deals in the repair and sale of new and used clocks. West brought a clock to Grill to be repaired. One of Grill's clerks mistakenly sold West's clock to Hone, another customer. Under the Sales Article of the UCC, will West win a suit against Hone for the return of the clock?

- a. No, because the clerk was not aware that the clock belonged to West
- b. No, because Grill is a merchant to whom goods had been entrusted
- c. Yes, because Grill could not convey good title to the clock
- d. Yes, because the clerk was negligent in selling the clock

(R/07, REG, 1046L, 8449)

36. On April 1, Roe borrowed \$100,000 from Jet to pay Roe's business expenses. On June 15, Roe gave Jet a signed security agreement and financing statement covering Roe's inventory. Jet immediately filed the financing statement. On July 1, Roe filed for bankruptcy. Under the federal Bankruptcy Code, can Roe's trustee in bankruptcy set aside Jet's security interest in Roe's inventory?

- a. Yes, because a security agreement may only cover goods actually purchased with the borrowed funds
- b. Yes, because Roe giving the security interest to Jet created a voidable preference
- c. No, because the security interest was perfected before Roe filed for bankruptcy
- d. No, because the loan proceeds were used for Roe's business

(R/07, REG, 1420L, 8451)

37. For which of the following contracts will a court generally grant the remedy of specific performance?

- a. A contract for the sale of a patent
- b. A contract of employment
- c. A contract for the sale of fungible goods
- d. A contract for the sale of stock that is traded on a national stock exchange

(R/07, REG, 1510L, 8452)

38. Under the Secured Transactions Article of the UCC, which of the following statements is (are) correct regarding the filing of a financing statement?

- I** A financing statement must be filed before attachment of the security interest can occur.
- II** Once filed, a financing statement is effective for an indefinite period of time provided continuation statements are timely filed.

a I only **b** II only **c** Both I and II **d** Neither I nor II (R/07, REG, 1868L, 8455)

39. Under Section 12 of the Securities Exchange Act of 1934, in addition to companies whose securities are traded on a national exchange, what class of companies is subject to the SEC's continuous disclosure system?

- a.** Companies with annual revenues in excess of \$5 million and 300 or more shareholders
- b.** Companies with annual revenues in excess of \$10 million and 500 or more shareholders
- c.** Companies with assets in excess of \$5 million and 300 or more shareholders
- d.** Companies with assets in excess of \$10 million and 500 or more shareholders

(R/07, REG, 1935L, 8456)

40. Which of the following penalties is usually imposed against an accountant who, in the course of performing professional services, breaches contract duties owed to a client?

- a.** Specific performance
- b.** Punitive damages
- c.** Money damages
- d.** Rescission

(R/07, REG, 2344L, 8464)