Homework for Chapter 5. Part 1

This is a "bread and butter" chapter. It covers day to day tax compliance (and planning). You need to know everything in this chapter. Many questions are based on law not explained in this text, because the law was covered in Tax-I and the accounting methods were covered in Intermediate Accounting. Your graduate courses build on the foundation you obtained in earlier courses.
Some of these questions are repeat questions from an earlier, provided for your review. There are also multiple questions with similar fact patterns. Use your judgement, if you think you don't need to work all of the questions.

1. Jan is married and files a joint return. The joint return does not have unusually large personal deductions. The joint return does not contain substantial amounts of income other than the income from the business described below. Jan operates an unincorporated office supply business that has the following income statement each year:

Sales	$1,000,000
Operating expenses	900,000
Net income	$ 100,000

Jan is considering incorporating the business. If the business is incorporated, she will draw a salary of $50,000, and the corporation will not pay dividends. Retained earnings will be reinvested in additional warehouse space and delivery equipment. The corporation is not expected to have surplus funds in the future. Which of these organizational forms is likely to result in the lowest total income tax burden?

a. Proprietorship **b.** Corporation without S election **c.** Corporation with S election

2. Which of the following cannot choose its tax entity status with the Check the box regulations?

a. C corporation **b.** Partnership **c.** Proprietorship

3. Choosing a tax year. Which taxpayers face restrictions on use of a fiscal year?

a. S corporations **b.** Personal Service Corporations **c.** Both

4. (§1221, §1231, §1250] A calendar-year corporation reported book income before income taxes of $120,000. Included in the determination of this amount were the following items:

Loss on sale of building depreciated on the straight-line method	($8,000)
Gain on sale of land used in business	2,000
Loss on sale of investments in securities (long-term)	(1,000)

The corporation's taxable income was:

a. $113,000 **b.** $121,000 **c.** $120,000 **d.** $125,000 **e.** Other Amount

5. A corporation reports the following for the year:

Sales	$500,000
Cost of sales and normal operating expenses	400,000
Interest income on municipal bonds **[§103]**	25,000
Capital loss on sale of temporary stock investments held 2 months **[§1211(a)]**	8,000

What it the amount of the corporation's taxable income for the year?

a. $100,000 **b.** $117,000 **c.** $125,000 **d.** $133,000 **e.** Other

6. Charlotte Corp, an accrual method taxpayer reported the following for the year:

Sales		$ 700,000
Cost of sales	$400,000	
Municipal bond interest **[§103]**		2,000
Compensation	90,000	
Meals and entertainment (Gross) **[§274(n)]**	20,000	
Payroll taxes, and Miscellaneous Expense	140,000	
Subtotal	650,000	702,000
Net Income before taxes	52,000	
Total	$702,000	$ 702,000

Charlotte does not have any carryover of losses, deductions or credits to the current year. The company does not qualify for any credits. You may ignore the impact of state income taxes. What is the amount of Charlotte Corporation's taxable income for the year?

a. $40,000 **b.** $50,000 **c.** $60,000 **d.** Other

7. [§461(h)(4), Reg. §1.461-1(a)(2)] **Expenses – Warranty Reserves.**
Charlotte Corporation's partial income statement after its first year of operations is as follows:

Net Income before income taxes		$500,000
Federal & state income taxes payable currently	$220,000	
Deferred income taxes	20,000	
Income tax expense		200,000
Net income		$ 300,000

Charlotte estimates its annual warranty expense as a percentage of sales.
The amount charged to warranty expense in its accounting records this year was $400,000.
No difference existed between pretax accounting income and taxable income except the warranty expense. Assuming a 40% income tax rate, what amount was actually paid this year on the corporation's warranty liability?

a. $350,000 **b.** $450,000 **c.** $375,000 **d.** $420,000 Other

8. [§274(b)(1)] **Expenses – Entertainment Expense, Gifts.**
During the holiday season, Taurus Corporation gave 14 business gifts to 14 customers.
The value of the gifts, which were not of an advertising nature, was as follows:

4 at $10; **4** at $25; **4** at $50; and **2** at $100

Taurus can deduct as a business expense

a. $0 **b.** $290 **c.** $520 **d.** $270 (CPA)

9. Which of the following costs are amortizable organizational expenditures?

a. Professional fees to issue the corporate stock.
b. Printing costs to issue the corporate stock.
c. Legal fees for drafting the corporate charter.
d. Commissions paid by the corporation to an underwriter. CPA

10. [§170(b)(2)] **Charitable contributions.**
In the current year, Chris Corp., a domestic corporation, had income, expenses and deductions:

Gross receipts (Operating Revenues)	$95,000
Operating Expenses, not including Charitable Contributions	65,000
Net income before deducting charitable contributions	30,000
Cash contributions to qualified charities	20,000
Net income after deducting charitable contributions	$10,000

What is Chris Corp's allowable charitable contribution deduction for the current year?
a. $1,000 **b.** $20,000 **c.** $4,000 **d.** $3,000 **e.** Other

11. [§170(d)(2)] **Charitable contributions**
If a corporation's charitable contributions exceed the limitation for deductibility in a particular year, the excess
a. Is not deductible in any future or prior year.
b. May be carried back or forward for one year at the corporation's election.
c. May be carried forward to a maximum of five succeeding years.
d. May be carried back to the third preceding year. CPA

12. [§170(b)(2)(c)] In the current year, Cable Corp., a calendar-year C corporation, contributed $80,000 to a qualified charitable organization. Cable's taxable income was $820,000, after a $40,000 dividends-received deduction (80%) and before the deduction for charitable contributions. Cable also had carryover contributions of $10,000 from the prior year. What amount may Cable deduct as charitable contributions for the current year?
a. $80,000 **b.** $82,000 **c.** $86,000 **d.** $90,000 CPA

13. A corporation was formed on January 1, Year-1.
The following represents the results of operations for the years Year-1 and Year-2:

	Year-1	Year-2
Sales	$200,000	$300,000
Cost of sales	100,000	150,000
Gross Margin	100,000	150,000
Net capital gains		5,000
Excess of capital losses over capital gains	3,000	
Salaries	30,000	30,000
Rent paid, payroll taxes, depreciation	31,000	31,000
Charitable Contributions	6,000	5,000
Dividends paid to stockholders	5,000	15,000

What is the taxable income for Year-2?
a. $57,900 **b.** $60,050 **c.** $78,900 **d.** $83,900 **e.** Other

14. [§243] **Dividends Received Deduction.**

Local Corporation had the following items of income and expenses:

Income from operations	$500,000
Expenses of operations	510,000
Net Operating Income	(10,000)
Dividend income from Cooper Corporation (a 10% owned corporation)	100,000
Total	$90,000

What is Local Corporation's dividends-received deduction, if any?

a. $70,000 **b.** $63,000 **c.** $82,000 **d.** $90,000 **e.** Other

15. [§246(b)(2)] TOGO Corporation had the following items of income and expenses:

Income from operations	$400,000
Expenses of operations	450,000
Net Operating Income	(50,000)
Dividend income from Cooper Corporation (a 10% owned corporation)	120,000
Total	$70,000

What is the TOGO Corporation's dividends-received deduction, if any?

a. $49,000 **b.** $70,000 **c.** $82,000 **d.** $84,000 **e.** Other

16. [Pg. 2-16+, §172(b)] **NOL.** KAD, Inc., a calendar-year corporation incorporated in January 2011. For each of the years 2011-2015, KAD reported taxable income (loss) before net operating loss deduction as follows:

2011	$15,000
2012	(20,000)
2013	10,000
2014	30,000
2015	(75,000)

When filing its tax returns for both 2012 and 2015, KAD did not elect to give up the carryback of its losses. KAD's taxable income before the net operating loss deduction for 2016 is $80,000. What is the amount of net operating loss carryforward that KAD should deduct on its tax return for 2016?

a. $30,000 **b.** $35,000 **c.** $40,000 **d.** $55,000

17. [§267(a)(2)] Corporation X, a calendar year accrual basis taxpayer, was short on cash in 2015, so it accrued but did not pay the usual year-end bonus or $20,000 to the President and 100% stockholder, and $10,000 to the Vice-president who owns no stock.
The Bonuses were paid in February, 2016. How much bonus does X corp. deduct?

	For 2015?	For 2016?		For 2015?	For 2016?
a.	$30,000	$0	**b.**	$20,000	$10,000
c.	$10,000	$20,000	**d.**	$0	$20,000

18. [§11] **Compute tax liability**. Concord Manufacturing Corporation has federal taxable income of $500,000 for the year. What is the federal income tax before credits?

a. $75,000 **b.** $150,000 **c.** $170,000 **d.** $195,000 **e.** Other Amount

19. [Pg. 2-12, **§**11, **§**1201] Cook Corp., a calendar year C corporation, had taxable income of $50,000 from its regular business operations for the year. In addition, Cook had a long-term capital gain of $10,000. Cook did not realize any other capital gains or losses in past years. What is Cook's federal income tax liability before credits?

a. $10,000 **b.** $9,000 **c.** $7,500 **d.** Other

20. [**§**11(b)(2)] **PSC.** What is AB Corp's income tax on taxable income of $825,000 if it is a personal service corporation?

a. $250,000 **b.** $280,500 **c.** $288,750 **d.** $301,000 **e.** $320,000

21. [**§** 1561] **Controlled groups-Compute tax.** Joe owns 100% of the stock of two corporations: (1) The Furniture Place in Gastonia and (2) The Appliance Place in Monroe.
Each corporation has taxable income of $100,000 (total of $200,000).
How much total federal income tax is paid by these two corporations for the year?

a. $30,000 **b.** $35,000 **c.** $44,500 **d.** $61,250 **e.** Other

22. [Pg. 2-25, **§** 6655 not in the code book.] **Compliance-estimated taxes –** A corporation's total federal income tax liability after credits was $30,000 for 2015. The total federal to be paid for 2016 to avoid a penalty for underpayment of estimated tax for 2016 is?

a. $18,000 **b.** $20,000 **c.** $27,000 **d.** $30,000

23. Compliance-return due date. A calendar year corporation obtains an automatic six-month extension to file its 2016 corporate income tax return. The corporation should file the return by:

a. March 15, 2017 **b.** April 15, 2017 **c.** September 15, 2017 **d.** October 15, 2017

Compliance-Book Tax Differences-

24. [**§**166(a)(1)] A company was started in 2016. The company reported net income before taxes of $40,000 on its GAAP income statement for 2017. For financial accounting purposes, the company charges 4% of gross sales to bad debts expense each year.
The Allowance for Bad Debts balance was $3,000 at 12/31/2016 and $4,000 at 12/31/2017.
What is the amount of taxable income for 2017?

a. $ 40,000 **b.** $41,000 **c.** $38,000 **d.** $39,000 **e.** none of these

25. [Pg. 2-26+, Sec. 102, 265] For the year, Maple Corp.'s book income, before federal income tax, was $100,000. Included in this book income of $100,000 were the following:

Provision for state income tax	$1,000
Interest earned on U.S. Treasury Bonds	6,000
Interest expense on bank loan to purchase U.S. Treasury Bonds	2,000

Maple's taxable income for the year was:

a. $ 96,000 **b.** $ 97,000 **c.** $ 100,000 **d.** $ 101,000 (CPA)

26. [Sec. 102, 265] Starke Corp., an accrual-basis calendar year corporation, has net income (GAAP) of $380,000. Included in that amount was $50,000 municipal bond interest income, $170,000 for federal income tax expense, and $2,000 interest expense on the debt incurred to carry the municipal bonds. What is Starke's taxable income?

a. $330,000 **b.** $500,000 **c.** $502,000 **d.** $550,000 CPA

27. In 2017 (first year of operations), Big Corp. had taxable income of $400,000. Big reported bad debts expense of $3,000 in its financial statements, but only wrote-off bad debts totaling $2,000. Big expects to have taxable income of about $400,000 for the foreseeable future. What is reported on its financial statements for 2017?

a. Deferred tax asset of $340 **b.** Deferred tax asset of $660
c. Deferred tax liability of $340 **d.** Deferred tax liability of $660

28. Grant, Inc. acquired 30% of South Co.'s voting stock for $200,000 on January 1, 2017. Grant's 30% interest in South gave Grant the ability to exercise significant influence over South's operating and financial policies. In 2017, South earned $80,000 and paid dividends of $50,000. What amount of gross income should Grant include in its **2017 Federal income tax return** from its investment in South?

a. $15,000 **b.** $24,000 **c.** $35,000 **d.** $50,000 **e.** $80,000 CPA

29. For the year ended December 31, Hurd, Inc., reported book income of $900,000 before income taxes. Hurd's income tax rate is 40%. Selected information for the year is available from Hurd's records as follows:

Interest income on municipal bonds	$ 70,000
Depreciation claimed on tax return in excess of depreciation per books	$130,000
Warranty expense on the accrual basis	$ 40,000
Actual warranty expenditures	$ 60,000

Hurd's current liability for income taxes (before reduction for estimated taxes paid) should be:

a. $272,000 **b.** $290,000 **c.** $332,000 **d.** $360,000 **e.** Other Amount

30. For the year ended December 31, Maple Corp.'s book income, before federal income tax, was $100,000. Included in this $100,000 were the following:

Provision for state income tax	$1,000
Interest earned on North Carolina Bonds	6,000
Interest expense on bank loan to purchase North Carolina Bonds	2,000

Maple's taxable income was

a. $ 96,000 **b.** $ 97,000 **c.** $ 100,000 **d.** $ 101,000 CPA

31. For the year ended December 31, Bard Corp.'s income per accounting records, before federal income taxes, was $450,000 and included the following:

State corporate income tax refunds	$ 4,000
Life insurance proceeds on officer's death	15,000
Net loss on sale of securities bought for investment 2 years ago	20,000

Bard's taxable income for current year is:

a. $435,000 **b.** $451,000 **c.** $455,000 **d.** $470,000 CPA

32. Bosse Corporation s books and records reflect the following for the current year:

Net income per books	$76,000
Tax-exempt interest	4,000
Excess charitable contributions	2,000
Meals in excess of 50% limitation	8,000
Accrued federal income taxes	18,000

What is the amount of Bosse's taxable income as it would be shown on Schedule M-1 of its corporate income tax?

a. $92,000 **b.** $100,000 **c.** $104,000 **d.** $108,000

33. Smith Corporation owns only 25% of the voting stock of Jones Corporation, but exercises significant influence over its operating and financial policies. The tax effect of differences between taxable income and pretax accounting income attributable to undistributed earnings of Jones should be:

a. Accounted for as a permanent difference
b. Accounted for as a timing difference
c. Ignored because it must be based on estimates and assumptions
d. Ignored because Smith holds less than 51% of the voting stock of Jones