

**No Ans Code**

1 B With a C corp, taxable income of \$50,000 will be taxed at 15%, not her max personal rate.  
With a proprietorship, she will pay income taxes on all income (after deductions). Also S.E. Tax.

2 A

3 C 441(i) Restrictions on fiscal year

1.1378-1

4 B

<b>Capital Gains and Losses of Corporations</b>		<b>Capital gain or loss</b>	<b>Ordinary gain or loss</b>	<b>Tax Return</b>
	<b>Facts</b>			
	Book income-including gains & losses	\$120,000		\$120,000
1221	Loss on sale of building	(8,000)	(8,000)	
1231	Gain on sale of land used in business	2,000	2,000	
	Ordinary loss - was deducted in book income		(6,000)	
1211	Loss on sale of stock (long-term) (loss deducted to get book income but not deductible on tax return)	(1,000)	(1,000)	1,000
	<b>Taxable Income</b>			<b>\$121,000</b>

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103  
1211(a)

<b>Compute taxable income</b>		<b>Facts</b>	<b>Return</b>
	Sales	\$500,000	\$500,000
	Cost of sales and normal operating expenses	400,000	400,000
	Interest income on municipal bonds	25,000	
	Capital loss on sale of temporary stock investments held 2 months	8,000	
	<b>Taxable income</b>		<b>\$100,000</b>

6 C

**Charlotte Corporation**

<b>Taxable Income &amp; Income Tax</b>	<b>Debit</b>	<b>Credits</b>
<b>Sales</b>		<b>\$700,000</b>
<b>Cost of sales</b>	<b>\$400,000</b>	
<b>Municipal bond interest</b>		<b>2,000</b>
<b>Compensation</b>	<b>90,000</b>	
<b>Meals and entertainment (Gross)</b>	<b>20,000</b>	
<b>Payroll taxes, &amp; Misc. Expense</b>	<b>140,000</b>	
<b>Subtotal</b>	<b>650,000</b>	<b>702,000</b>
<b>Net Income (GAAP) before taxes</b>	<b>52,000</b>	
<b>Add: one half of entertainment</b>	<b>10,000</b>	
<b>Deduct: municipal bond interest</b>	<b>(2,000)</b>	
<b>Taxable income</b>	<b>60,000</b>	

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Charlotte Corp's partial income statement after its first year of operations is as follows:

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

Charlotte estimates its annual warranty expense as a percentage of sales.

The amount of warranty expense in its accounting records this year was \$400,000.

No difference existed between pretax accounting income and taxable income except warranty expense. Assume a 40% income tax rate. What warranty payments were made?

Income tax expense per books	\$200,000
Income tax paid	220,000
Difference in tax	20,000
Tax rate	40%
Difference between book income & taxable income	50,000
Amount of warranty expense on books	400,000
<b>Amount of warranty expense on tax return.</b>	<b>\$350,000</b>

8 B §274

**Tarus Corporation makes gifts**

No.	Amount	Total	Limit Each	Deduct
4	10	40	10	40
4	25	100	25	100
4	50	200	25	100
2	100	200	25	50
		<b>\$540</b>		<b>\$290</b>

9 C

10 D §170(d)(2)

<b>Chris Corporation - Charitable Contribution</b>	
Gross receipts (Operating Revenues)	\$95,000
Operating Expenses, not including Contributions	65,000
Net income before deducting charitable cont.	30,000
Cash contributions to qualified charities	20,000
<b>Deductible contribution</b>	<b>\$3,000</b>

11 C

12 C

**Corporate Charitable Contribution Deduction Limits**

The first 4 lines of information is computed from data given.

1	<b>Operating Income</b>	\$810,000
2	Dividend Income	50,000
3	Subtotal - base for charity limit	860,000
4	Dividends Received Deduction	(40,000)
5	<b>Taxable income after dividends received deduction but before charitable contributions</b>	<b>820,000</b>
6	Contributions made this year	80,000
7	Carryover from last year	10,000
8	Total contribution deduction available	90,000
9	Contributions deductible - current year(10% of line 3)	<b>86,000</b>
10	<b>Taxable Income</b>	<b>\$734,000</b>

You have to back into your contribution base for the percentage limit.

13 D

	Year-1 Facts	Year-1 Return	Year-2 Facts	Year-2 Return
Sales	\$200,000	\$200,000	\$300,000	\$300,000
Cost of sales	-100,000	-100,000	-150,000	-150,000
Gross Margin	100,000	100,000	150,000	150,000
Net capital gains			5,000	5,000
Excess of cap losses over cap gains	-3,000			
Carryover				-3,000
Salaries	-30,000	-30,000	-30,000	-30,000
Rent, payroll taxes, depreciation	-31,000	-31,000	-31,000	-31,000
Taxable income before charity		39,000		91,000
Contributions	-6,000	-3,900	-5,000	-5,000
Carryover				-2,100
<b>Taxable income</b>		<b>35,100</b>		<b>83,900</b>
Dividends paid	5,000	5,000	15,000	15,000

14 B §243

**Local Corporation - Dividends Received**

Income from operations	\$500,000
Expenses of operations	510,000
Net Operating Income	(\$10,000)
Dividend income from X Corp. (a 10% owned)	100,000
Total	\$90,000
Dividend Received deduction percentage	70%
Dividend Received deduction amount	\$63,000

15 D §243

**TOGO Corporation had the following items of income and expenses:**

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

Income from operations	\$400,000
Expenses of operations	450,000
Net Operating Income	(50,000)
Dividend income from X Corp. (a 10% owned)	120,000
Total	70,000
Dividend Received deduction percentage	70%
<b>Dividend Received deduction amount</b>	<b>\$84,000</b>

The special rule applies here - DRD causes or increases a Net Operating Loss.

16 C §172 **KAD, Inc. Corporate Net Operating Losses**

	2011	2012	2013	2014	2015	2016
Net income (Loss)	\$15,000	(\$20,000)	\$10,000	\$30,000	(\$75,000)	\$80,000
	(\$15,000)	\$15,000				
		\$5,000	(\$5,000)			
			\$5,000	\$30,000	(\$75,000)	\$80,000
			(\$5,000)		\$5,000	
				(\$30,000)	\$30,000	
					(\$40,000)	\$80,000
					\$40,000	(\$40,000)
					0	\$40,000

  

Taxable Income	
Total losses above	(\$95,000)
Total profits above	135,000
<b>Difference</b>	<b>\$40,000</b>

17 C A deduction for an accrual of an expense by an accrual basis taxpayer payable to a cash basis, related taxpayer is not deductible until the year the income is reported by the cash basis, related taxpayer.

18 C §11 **Compute income tax-Concord Corporation**

Taxable income	\$500,000
	34%
<b>Tax</b>	<b>\$170,000</b>

Taxable income is in the range on the tax rate table where average and marginal rates are 34%.

19 A §11

Taxable income from operations	\$50,000		
Capital gains	10,000		
Taxable income	60,000		
	50,000	15%	\$7,500
	10,000	25%	2,500
<b>Total Federal Income Tax</b>			<b>\$10,000</b>

How would your answer change if the company had dividend income of \$10,000, not capital gains?

§243

Net income from operations	\$50,000		
Dividend income	10,000		
Taxable income before DRD	60,000		
DRD	(7,000)		
Taxable income	\$53,000	<b>Rate</b>	<b>Tax</b>
First layer	50,000	15%	\$7,500
Second layer	3,000	25%	750
			<b>\$8,250</b>

Assume taxpayer does not own 20% or more of stock in another company, unless problem says otherwise.

20 C §11(b)(2) **AB Corporation**

Taxable Income	\$825,000
Tax Rate	35%
Income Tax	\$288,750

See Code §11, personal service corporation has a flat tax rate of 35% at all income levels.

**Taxable income**

21 D

Furniture Place	\$100,000		
Appliance Place	100,000		
Total taxable income	\$200,000	<b>Tax Rate</b>	<b>Tax</b>
	\$50,000	15%	\$7,500
	25,000	25%	6,250
	25,000	34%	8,500
	100,000	39%	39,000
	<b>\$200,000</b>		<b>\$61,250</b>

They can elect to allocate the lower rates among the corporations as they choose.  
 Suppose Furniture place has a net operating loss of \$100,000 from previous year.

**Suppose Furniture place has a loss this year of \$100,000 and**

**Appliance has net income this year of \$100,000. Allocate low rates to Appliance.**

22 D

23 C

24 B

Bad debt provision is more than write-off

Amount of change in allowance account	\$1,000
GAAP net income	\$40,000
Taxable income	\$41,000

25 C

**Maple Corporation**

Book income before tax (including the following)	\$100,000
Provision for state income tax	1,000
Interest earned on U.S. Treasury Bonds	6,000
Interest expense on loan to buy U.S. Treasury Bonds	2,000

All of the above are treated the same way for GAAP and Tax

No need to adjust book income to get taxable income.

26 C

**Starke Corporation**

<b>Reconciliation to Book Income to Taxable Income</b>	
<b>Net Income Per Books</b>	\$380,000
<b>Add: Non-Deductible Expenses:</b>	
Federal income tax	170,000
Disallowed interest expense	2,000
	552,000
Less: Nontaxable income	(50,000)
<b>Taxable Income</b>	<b>\$502,000</b>

27 A \$166

Sales	\$100,000
Expenses	85,000
Net Income (GAAP)	15,000
Add back bad debt provision	3,000
Net income before Bad Debts	18,000
Bad debts written off	(2,000)
Taxable Income	16,000

Includes bad debt provision of \$3,000

Not required in this question.

Tax basis of Accounts receivable is equal to the balance in the account.

GAAP basis is equal to the balance in the account, less the allowance balance.

Excess tax basis in receivable	1,000
Tax rate	34%
<b>Deferred tax asset</b>	<b>\$340</b>

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		<b>Grant, Inc.</b>		<b>Grant, Inc.</b>
<b>Grant, Inc.</b>		<b>Total</b>	<b>Ownership</b>	<b>Share</b>
South Co.	Earnings	\$80,000	30%	24,000
South Co.	Dividends	50,000	30%	<b>15,000</b>

Accounting

Tax

**Use equity method for accounting, but cost method for Tax.**

29 A

Hurd, Inc.	
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<b>Book income before income taxes</b>	\$900,000
Interest income on municipal bonds	(70,000)
Depreciation on tax return in excess of Book Deprec.	(130,000)
Warranty expense on the accrual basis	40,000
Actual warranty expenditures	(60,000)
<b>Taxable income</b>	<b>\$680,000</b>
<b>Income tax rate</b>	<b>40%</b>
<b>Income Tax</b>	<b>\$272,000</b>

30 A

Maple Corporation		Tax Return
Book income before tax (including the following)	\$100,000	\$100,000
Provision for state income tax	1,000	
Interest earned on N.C. Bonds	6,000	(6,000)
Interest expense on loan to buy N.C. Bonds	2,000	2,000
<b>Taxable Income</b>		<b>\$96,000</b>

31 C

Bard Corporation	Data	Tax Return
Bard Corporation's net income per books	\$450,000	\$450,000
State corporate income tax refunds	4,000	
Life insurance proceeds on officer's death	15,000	(15,000)
Loss on sale of securities bought for investment-2002	20,000	20,000
<b>Taxable Income</b>		<b>\$455,000</b>

32 B

Bosse Corporation	Facts	Tax. Income
Net income per books	\$76,000	\$76,000
Tax-exempt interest	4,000	(4,000)
Excess charitable contributions	2,000	2,000
Meals in excess of 50% limitation	8,000	8,000
Accrued federal income taxes	18,000	18,000
<b>Taxable Income</b>		<b>\$100,000</b>

Note: Actual charity contribution must have been \$12,000.

33 B