**Home Work-Chapter 10. The current year is assumed to be 2016.**



On January 1, Green Co. bought a warehouse, paying cash of $100,000 and giving a mortgage of $400,000. Green paid back taxes of $5,000 that accrued in the preceding year. Green will pay $6,000
for taxes that are due for the current year. What is the total basis of the warehouse and land?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $500,000 | **b.** | $505,000 | **c.**  | $511,000 |  |  |

Carol is the business manager for Auto Mart. She bought a new car from the dealership for $30,000.
The dealership’s cost was $25,000, and the FMV is $42,000. Auto Mart has a policy of posting the price of vehicles and not negotiating sales discounts with customers. What is Carol's basis in the new car?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $25,000 | **c.** | $42,000 | **d.** | $30,000 | **e.** | $37,000 |  |



Ben bought land and a building by paying cash of $35,000, and assumed the seller's $82,000 mortgage. In addition, Ben paid $3,000 of legal fees related to the purchase. For property tax
purposes, the land is valued at $17,000 and the building at $34,000. Ben's basis in the building is

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $17,000 | **b.** | $34,000 | **c.** | $40,000 | **d.** | $80,000 | **e.** | $120,000 |  |

 Taxpayer bought a business building and land in a single transaction at a bargain.

|  |  |
| --- | --- |
| **Description** | **Amount** |
| Total Cost for both assets | $560,000 |
| Fair Market Value of building | 600,000 |
| Fair Market Value of land | 100,000 |

What is the basis of the land?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 50,000 | **b.** | $ 70,000 | **c.** | $80,000 | **d.** | $560,000 | **e.** | $700,000 |  |



 Ms. K converted her personal residence to rental property on January 2, 2016.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Date** | **Total** | **House** | **Land** |
| **Residence converted**  | Adj. basis | 1-2-2016 | $45,000 | $40,000 | $5,000 |
|  **to rental property** | FMV | 1-2-2019 | $43,000 | $38,000 | $5,000 |

 What is Ms. K's basis in the house for determining depreciation?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $-0- | **b.** | $38,000  | **c.** | $40,000 | **d.** | $43,000 | **e.** | $45,000 |  |

Terri owns a truck that cost $40,000 several years ago. After using it personally for two years,
she converted the asset to business use when the asset's fair market value was $38,000.
She used the truck in her business and appropriately deducted $5,000 in depreciation on the asset.
Then, she sold the asset for $42,000. What was Terri's realized gain or loss on the sale?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | No gain or loss | **b.** | $7,000 gain  | **c.** |  $27,000 gain  | **d.** | $32,000 gain |  |



 An individual (Jan) owns an office building with a value of $500,000

The building has a basis after depreciation of $400,000 (cost $600,000 & accumulated depreciation of $200,000). If Jan sells the building for cash (for it FMV of $500,000) she will recognize a gain of $100,000.

Assume the Jan trades the building for another office building that is also worth $500,000,

Jan has a gain realized on the exchange of $100,000. The gain will not be recognized because this
is a like-kind exchange (rules covered in later chapter). What is Jan’s basis of the new building?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 400,000 | **b.** | $ 500,000 | **c.** | $600,000 |  |  |  |  |  |



Bob received a gift of art valued at $10,000. The art had an adjusted basis of $6,000 to the donor.
No gift tax was paid on the transfer. Bob sold the art for $9,000. What is Bob's gain or (loss) on the sale?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 gain | **b.** | $3,000 gain | **c.** | $4,000 gain | **d.** | $1,000 loss | **e.** | $3,000 loss |  |

Will received a gift of art valued at $7,000. The art had a basis of $11,000 to the donor.
No gift tax was paid. Will later sold the books for $8,000. What is Will's gain or (loss) on the sale?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 gain, $0 loss | **b.** | $1,000 gain | **c.** | $4,000 gain | **d.** | $1,000 loss | **e.** | $3,000 loss |  |

Valerie received a ring as a gift from her aunt. The ring was valued at $12,000 on the date of gift.
Valerie's aunt's basis in the ring was $13,000. Three years later Valerie sold the ring for $14,000.
What is the amount of gain or (loss) realized by Valerie on the sale?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $- 0 - | **b.** | $1,000 gain | **c.** | $2,000 gain | **d.** | Other |  |

Larry gave stock to his son. Larry had a basis of $60,000 in the stock. Its FMV of $100,000.
Larry paid gift tax of $20,000 on this gift. What is the basis of this stock for his son?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $-0- | **b.** | $60,000  | **c.** | $68,000 | **d.** | $80,000 | **e.** | $100,000 |  |



Sue is a successful executive. She has no current need for the assets she will receive from her elderly parents. Her parents are discussing whether to leave all of their property to Sue in the will, or give her some of the assets now. The assets are substantial and they are worth much more than their basis. Sue would prefer to receive the assets:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Now as gifts | **b.** | Later as an inheritance | **c.**  | Either |  |  |



It is necessary to estimate the useful life of the asset if depreciation is being computed for:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Financial Statements | **b.** | Tax return | **c.**  | Both |  |  |

An accountant is preparing a 2016 income tax return and is computing depreciation for an asset
acquired in 2009. The depreciation should be computed using the tax law in effect for:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 2009 | **b.** | 2016 | **c.**  | Either year |  |  |

What is the MACRS recovery period for an office desk?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 3 years. | **b.** | 5 years. | **c.** | 6 years. | **d.** | 7 years | **e.** | 10 years |  |



MACRS requires the use of one of three conventions.
For personal property, the general and most common convention is

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | mid-life | **b.** | mid-quarter. | **c.** | mid-month. | **d.** | mid-year. |  |  |  |

Teton Company purchased a machine on July 22 at a cost of $510,000, which
has a recovery period of 7 years. [Page 10-9] The company will **NOT** claim:
(1) bonus depreciation [Pg. 10-20)] or (2) expensing under section 179 [Page 10-18].
What is Teton’s cost recovery deduction? See page 10-40, Table 1

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $72,879 | **b.** | $65,714 | **c.** | $88,459 | **d.** | $42,086 | **e.** | $55,500 |  |

Teton Company purchased a used delivery truck on July 22 at a cost
of $15,000, which has a recovery period of 5 years. (Page 10-8).
[Weight is 8,000 pounds. Page 10-27. Luxury auto rules not applicable.]
The company will NOT claim: (1) bonus depreciation [pg. 10-20] or
(2) immediate expensing under Section 179 [Page 10-18].
What is Teton’s cost recovery deduction?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $3,000 | **c.** | $5,000 | **d.** | $15,000 | **e.** | Other |  |

AssumeTeton Company purchased a used delivery truck in the preceding question on
December 22. This was the only asset acquisition in the year. This means the asset(s) placed
in service in the fourth quarter exceeds 40% of the cost of all assets placed in service in the year.
The mid-quarter rule applies in this case. What is Teton’s cost recovery deduction?
(Page 10-41, Table 2d)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 750 | **b.** | $3.000 | **c.** | $5,000 | **d.** | $15,000 | **e.** | Other |  |

Steven bought a new truck (5-year MACRS property, weighing 8,000 pounds) to use
in his landscaping business on May 13, at a cost of $18,000. On November 5, he bought
landscaping equipment (7-year MACRS property) costing $34,000.
Steven does not wish to immediately expense any of the cost of the property bought
this year. What is his current maximum allowable cost recovery deduction? [Page 10-41]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,114 | **b.** | $5,714 | **c.** | $8,459 | **d.** | $12,086 | **e.** | $15,500 |  |



Witt Corporation placed in service Section 179 property costing $2,125,000 for use in
its business. What is Witt Processing's maximum Section 179 deduction for 2016? [Page 18+]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $350,000 | **b.** | $100,000 | **c.** | $385,000 | **d.** | $400,000 | **e.** | Other |  |

Henry purchases $40,000 of equipment. The taxable income of the business is $20,000
[before sec. 179 deduction]. What is the maximum Section 179 deduction for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 20,000 | **b.** | $ 30,000 | **c.** | $25,000 | **d.** | $40,000 | **e.** | Other |  |

 Keith wishes to maximize his total cost recovery deduction for his fixed asset purchases.

On September 15, 2016, he purchases 5-year MACRS property costing $300,000.
On September 15, 2016, he purchases 7-year MACRS property costing $400,000.

What will his total cost recovery deduction be on the properties purchased in 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $540,000 | **b.** | $505,725 | **c.** | $600,000 | **d.** | $580,000 | **e.** | Other |  |



Residential rental real estate placed in service on July 17 of the current year is depreciated over:

|  |  |  |
| --- | --- | --- |
| **a.** | 39 years, straight-line method, mid-month convention. |  |
| **b.** | 40 years, straight-line method, mid-month convention. |
| **c.** | 27.5 years, 150%-declining-balance method, mid-year convention. |
| **d.** | 27.5 years, straight-line method, mid-month convention. |
| **e.** | 31.5 years, 200%-declining-balance method, mid-year convention. |

Nonresidential commercial realty placed in service on March 2, of current year, is depreciated over:

|  |  |  |
| --- | --- | --- |
| **a.** | 27.5 years, 200%-declining-balance method, mid-year convention. |  |
| **b.** | 31.5 years, straight-line method, mid-month convention. |
| **c.** | 31.5 years, 200%-declining-balance method, mid-year convention |
| **d.** | 39 years, straight-line method, mid-month convention. |
| **e.** | 40 years, straight-line method, mid-month convention. |

Shirley pays $170,000 for an **office building** on August 27, to use in her consulting business.
She properly allocates $150,000 to the building and $20,000 to the land. [Page 10-43, Table 5]
What is Shirley's depreciation deduction on the property in the second year of ownership?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,124 | **b.** | $1,443 | **c.** | $1,923 | **d.** | $3,846 | **e.** | $5,454 |  |

Anderson bought an apartment building on March 27, 2004, at a cost of $2,000,000
(exclusive of the cost allocated to land). He sold the building on November 3, 2016.
What is Anderson's cost recovery deduction on the building in 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $51,510 | **b.** | $63,630 | **c.** | $66,660 | **d.** | $69,690 | **e.** | $72,720 |  |



Pet Co. bought and placed into service a company auto costing $60,000 in April, 2016.
The auto is used 100% for business. What is the depreciation deduction for 2016? (Page 10-27)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,530 | **b.** | $2,900 | **c.** | $3,160 | **d.** | $4,350 | **e.** | $10,960 |  |

In **June of 2016**, Chase purchased a new car for $28,000. He used the car 75% for business
purposes. What is Chase's maximum depreciation deduction for the car in the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,220 | **b.** | $3,060 | **c.** | $4,200 | **d.** | $2,370 | **e.** | Other |  |



 **[Pg. 10-32]** Local Corporation was organized and began operations on October 1, 2016.
It incurs $4,100 in legal fees to obtain the corporate charter.
The corporation elects to expense its organizational costs over the shortest allowable period.
What amount will Local Corp. report for organizational expenses for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,050 | **b.** | $4,100 | **c.** | $5,000 | **d.** | $5,600 | **e.** | $41,000 |  |

On 1-1-2016, Bell Corp. was organized. On that date, Bell paid $23,000 for startup costs for the corporation. What amount is deducted for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $6,000 | b. | $5,120 | c. | $6,200 | d.  | $23,000 | e. | Other |  |



Rose owns a mine, which cost her $460,000 several years ago. In prior years she had claimed
depletion in the amount of $140,000. It is estimated that 800,000 tons of minerals remained in the
mine at the beginning of the year. During the current year, Rose mined and sold 180,000 tons.
What is the amount of Rose's cost depletion deduction for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $56,000 | **b.** | $72,000 | **c.** | $80,500 | **d.** | $103,500 | **e.** | $180,000 |  |

Scott bought Franklin's stock in ABC Company on July 1 of current year. Scott paid Franklin
$30,000 cash not to compete or interfere with Scott's business activities over the next 3 years.
How much cost recovery can Scott claim in the current year for the covenant not to compete?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $2,000 | **c.** | $3,000 | **d.** | $6,000 | **e.** | $30,000 |  |

 Jason paid $24,000 for a patent, with 8 years of legal life remaining from date of purchase.

|  |  |
| --- | --- |
| I. | If patent is the only asset Jason purchased, he must amortize the patent over 15 years. |
| II. | If patent was part of a purchase of all assets of a business, he must amortize the patent over 15 years. |
| **a.** | Only statement I is correct. | **b.** | Only statement II is correct. |  |
| **c.** | Both statements are correct. | **d.** | Neither statement is correct. |