**Homework-Chapter 11.** Assume the depreciation computations provided in these   
questions are accurate, even where there are special tax rules that may require other   
answers (rules for year of acquisition or disposal). The current year is **2016.**



**C**athy owns property subject to a mortgage of $5,000. Annual real estate taxes   
are $1,000 and are due and payable on December 31. Cathy sells her property on **July 1.**The buyer assumes her $5,000 mortgage, and Cathy agrees to finance the sale by   
taking a mortgage note of $50,000 and property valued at $7,500.   
The buyer agrees to pay the seller's portion of property taxes. What is Cathy's amount realized?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $72,000 | **b.** | $63,500 | **c.** | $63,000 | **d.** | $62,500 | **e.** | $57,500 |  |



**On December 20, 2016**, Beth sold land for $35,000. Beth inherited the land from   
Ann (Beth’s mother) upon Ann’s death **on June 1, 2016**, when the property was worth $30,000.   
Ann acquired the land for $20,000 in 1990. Beth reports a:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Short-term capital gain of $15,000 | **b.** | Short-term capital gain of $5,000 |  |
| **c.** | Long-term capital gain of $15,000 | **d.** | Long-term capital gain of $5,000 |

Terry receives investment property (land) from her mother as a gift in 2016.   
Her mother paid $15,000 for the land in 2005, and it is valued at $18,000 on date of the gift.   
Terry sells the property eight months later for $16,000. Terry's gain or loss is

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Short-term ordinary loss. | **b.** | Short-term capital gain. |  |
| **c.** | Short-term capital loss. | **d.** | Long-term capital gain. |
| **e.** | Long-term ordinary gain |  |  |

**[Pg. 11-3]** In 1995, your Father bought 20,000 shares of Duke Energy stock at a total cost   
of $200,000. On January 1, 2016, your father gave you one-half of his Duke Energy   
stock (10,000 shares) having a value of $250,000 on the date of the gift. No gift tax was paid.

On August 1, 2016, your father died and left you the remaining 10,000 shares of Duke   
Energy stock having a value at date of death of $300,000.

On December 31, 2016, you sold all 20,000 shares of Duke Energy for $600,000.   
What is the amount of your gain?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $50,000 | **c.** | $200,000 | **d.** | $250,000 | **e.** | $400,000 |  |  |



Bob Rich purchased a tract of land for $20,000 in 2005 when he heard that a new highway was going to be constructed through the property and that the land would soon be worth $200,000. Highway engineers surveyed the property and indicated that he would probably get $175,000. The highway project was abandoned in **2016** and the land’s value fell to $15,000. Rich can claim a loss in **2016** of:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Zero | **b.** | $185,000 | **c.** | $180,000 | **d.** | $160,000 | **e.** | $5,000 |  |



Which of the following is a capital asset?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Business auto. | **b.** | Machinery used in manufacturing a product. |  |
| **c.** | Business building. | **d.** | Family auto. |

An individual had AGI of $100,000 for the current year, before considering the following:

|  |  |
| --- | --- |
| Long-term capital gain of | $3,000 |
| Short-term capital loss of | (9,000) |
| Loss from sale of business auto (owned 2 years) | (1,000) |

What is her adjusted gross income for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $96,000 | **b.** | $97,000 | **c.** | $98,000 | **d.** | $93,000 | **e.** | $94,000 |  |

Sue is single and earns a salary of $200,000 per year. Sue claims the standard deduction   
and one personal exemption**.** She had short-term capital gain of $10,000 and a short-term   
capital loss of $8,000. What tax rate will apply to her net capital gain?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 5% | **b.** | 10% | **c.** | 15% | **d.** | 25% | **e.** | 33% |  |

Cook Corp., a calendar year C corporation, had taxable income of $50,000 from its   
regu­lar business operations. In addition, Cook had a long-term capital gain of $10,000.   
Cook did not have any other capital gains or losses since it began operations.   
What is Cook's federal income tax liability before credits?

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

Baker Corp., a calendar year C corporation, realized taxable income of $36,000 from   
its regu­lar business operations. In addition, Baker had a short-term capital gain of $8,000   
and a long-term capital loss of $12,000. Baker did not realize any other capital gains or   
losses since it began operations. What is Baker's taxable income?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $35,000 | **b.** | $33,000 | **c.** | $36,000 | **d.** | $32,000 | CPA |  |

Matthew has the following capital gains and losses for the current tax year

|  |  |
| --- | --- |
| Short-term capital gains | $12,000 |
| Long-term capital gains | 5,000 |
| Short-term capital losses | (7,000) |
| Long-term capital losses | (6,000) |

What is Matthew's net capital gain or loss position for the year?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $4,000 net short-term capital gain | **b.** | $2,000 net long-term capital loss. |  |
| **c.** | $2,000 net short-term capital gain. | **d.** | $3,000 net long-term capital loss. |
| **e.** | $4,000 net short-term capital loss. |  |  |

O'Donnell Corporation had the following capital gains and losses for 2012 through **2016**:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2012** | **2013** | **2014** | **2015** | **2016** |
| $30,000 | $(20,000) | $15,000 | $(30,000) | $60,000 |

O'Donnell's net capital gain for **2016** is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $25,000 | **b.** | $30,000 | **c.** | $35,000 | **d.** | $55,000 | **e.** | $60,000 |  |

On September 2, **2016**, Arthur sold stock he bought in **October 2015** at a gain of $5,000.   
Arthur is in the 25% marginal tax rate bracket.   
He has no other capital asset sales in **2016**.   
What is his tax on the stock sale?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 500 | **c.** | $ 750 | **d.** | $1,000 | **e.** | $1,250 |  |

Section 1231 assets include

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Inventory. | **b.** | Stocks and bonds. |  |
| **c.** | Personal residence. | **d.** | Business-use realty. |
| **e.** | Personal automobile. |  |  |

Sally owns 700 shares of *Fashion Co.* common stock. Sally bought the 700 shares as follows:

|  |  |  |
| --- | --- | --- |
| **Purchase Date** | **Number of Shares** | **Total Cost** |
| March 2007 | 200 | $ 2,000 |
| August 2007 | 300 | $ 3,600 |
| January 2008 | 200 | $ 3,000 |

As of December 29, 2016, Sally has not sold any securities. She needs $5,200 for her daughter's tuition before year-end. Fashion Co. stock is selling for $13 per share. Sally will sell 400 shares to cover the tuition. Ignore commissions and transaction costs. What is the optimal tax result of selling 400 shares?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $- 0 - gain or loss. | **b.** | $200 long-term capital loss. |  |
| **c.** | $100 long-term capital gain. | **d.** | $800 long-term capital gain |

Barbara had these Section 1231 gains and losses:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Section 1231** | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
| **gain (loss)** | $50,000 | (45,000) | $20,000 | $15,000 |

How will Barbara treat the $15,000 gain in year 4?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  |  |
| **a.** | $5,000 | $10,000 | **c.** | $15,000 | $0 |  |
| **b.** | $10,000 | $5,000 | **d.** | $0 | $15,000 |  |



In 2016, Stan sold land (bought in 2005) which he used in his auto repair business.   
He realized at a gain of $9,000 on sale of the land in **2016**. In addition, Stan sold equipment   
for $8,000 which he purchased in 2007. He had paid $20,000 for the equipment and it had an   
adjusted basis of $12,000 when it was sold. He also sold some stock in **2016** at a loss of $11,000.   
No losses on the disposition of assets were recognized in prior years.   
The effect of these transactions on Stan's **2016** taxable income is:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Decrease of $ 6,000. | **b.** | Zero, with a long-term capital loss carryback of $2,000. |  |
| **c.** | Decrease of $ 3,000. | **d.** | Zero, with a long-term capital loss carryback of $6,000. |



Arch Corp. purchased some equipment for $68,000 in 2006. **In 2016,** Arch sold that equipment for $80,000, when the balance of accumulated depreciation was $28,000. Arch should report the sale as:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Sec. 1231 Gain** |  | **Ordinary Income** | **Sec. 1231 Gain** |  |  |
| **a.** | $12,000 | $28,000 | **c.** | $40,000 |  |
| **b.** | $28,000 | $12,000 | **d.** |  | $40,000 |

The corporation bought some equipment for $250,000 in 2007.  
**In 2016,** the company sold that equipment for $240,000. Accumulated depreciation was $30,000.   
The company should report the sale as:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | Ordinary income of $20,000. | **b.** | Sec. 1231 gain of $20,000. |  |  |
| **c.** | Capital gain of $20,000. | **d.** | Sec. 1231 gain of $30,000. |

Gail purchased the apartment building for $400,000 in six years ago. **In 2016,** Gail sold that apartment building to an unrelated party for $390,000. Accumulated Depreciation (straight-line) was $60,000 on the date of the sale. Gail had taxable income of $400,000 before considering this sale.   
What is Gail’s tax rate on the gain from this sale? [Gain is an individual, not a company.]

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 5% | **b.** | 10% | **c.** | 15% | **d.** | 25% | **d** | 33% |  |  |

Jane purchased the apartment building for $400,000 in **2006.** **In 2016,** Jane sold the apartment   
to an unrelated party for $425,000. Accumulated Depreciation (straight-line) was $60,000.   
What is the tax result of this sale?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Ordinary Income** | **Capital Gain** |  | **Ordinary Income** | **Capital Gain** |  |  |
| **a.** | $0 | $85,000 | **c.** | $60,000 | $25,000 |
| **b.** | $85,000 | $0 | **d.** | $30,000 | $55,000 |

Angel Corporation bought a warehouse in 1994 for $600,000. **In 2016,** Angel sold the warehouse for $500,000, when the balance in accumulated depreciation was $200,000. Angel should report:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Sec. 291 recapture** | | **Sec. 1231 Capital Gain** | |  | **Sec. 291 recapture** | **Sec. 1231 Capital Gain** |  |  |
| **a.** | | $20,000 | | $80,000 | **c.** | $100,000 | $0 |
| **b.** | | $0 | | $100,000 | **d.** | $20,000 | $0 |



**K**aty and Nikki each own investment realty that they would like to trade.

Katy's property has a FMV of $25,000, and is subject to mortgage debt of $10,000.   
Nikki's property has a FMV of $25,000 and is subject to mortgage debt of $17,000.

Katy and Nikki agree to exchange the properties and assume each other's debt.   
To complete the exchange, who pays cash and how much will that person have to pay?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Katy pays $15,000 | **b.** | Nikki pays $7,000. |  |
| **c.** | Nikki pays $8,000. | **d.** | Katy pays $7,000. |
| **e.** | Neither person pays anything. |  |  |

The mechanism that allows for gains to be deferred and recognized   
later upon disposition of the second asset is:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Basis adjustment | **b.** | Credit disallowance | **c.** | Loss disallowance |  |

Under the like-kind exchange rules, when like-kind property is traded for   
like-kind property, a loss on a trade-in is:

|  |  |  |
| --- | --- | --- |
| **a.** | recognized and treated as a capital loss. |  |
| **b.** | recognized and treated as an ordinary loss. |
| **c.** | not recognized and decreases the basis of the replacement property. |
| **d.** | not recognized and increases the basis of the replacement property. |

Pat's Pastry Shop remodeled its offices this year. Pat's Pastry had furniture   
with a cost of $12,000 that was expensed in the year of purchase (Section 179).

Pat’s Pastry traded that furniture for new furniture costing $22,000.

Pauline's receives a $5,000 allowance trade-in for the old furniture.

Pat borrowed the remaining $17,000 from Easy Finance Company.   
How much of the realized gain or loss is recognized on the exchange?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $5,000 | **c.** | $10,000 | **d.** | $17,000 | **e.** | Other |  |

Wendell owned 115 acres of land with a fair market value of $57,000. He purchased   
the land as an investment for $35,000 in 1993. This year, Wendell traded the land for   
a 122-acre parcel adjacent to other property he owns. The 122 acres has a value   
of $57,000, and the exchange qualifies for like-kind deferral treatment.  
What is Wendell's recognized gain on the exchange?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $22,000 | **c.** | $35,000 | **d.** | $57,000 | **e.** | $79,000 |  |

Big Inc. owned a truck with an adjusted basis of $10,000 and FMV of $13,000.

Big traded the old truck for a newer truck.

|  |  |
| --- | --- |
| **Value old truck given** | **$13,000** |
| **Basis of truck given** | **$10,000** |
| **Cash given** | **$2,000** |
| **Value truck received** | **$15,000** |

What is the amount of **gain realized** by Big, if any?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $3,000 |  |

Repeat preceding question. What is the amount of gain to be **recognized** by Big, if any?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $3,000 |  |

Repeat the preceding question. What is Big’s **basis for the newer truck**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,000 | **b.** | $12,000 | **c.** | $13,000 | **d.** | $15,000 | **e.** | Other |  |

Mike owned business equipment with FMV of $100,000 and an adjusted basis of $90,000.

Big traded the old equipment for newer equipment worth $96,000 and cash of $4,000.

|  |  |
| --- | --- |
| Value old machine given | $100,000 |
| Basis of machine given | $90,000 |
| Cash received | $4,000 |
| Value machine received | $96,000 |

Mike's recognized gain is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $4,000 | **c.** | $6,000 | **d.** | $40,000 | **e.** | Other |  |

Repeat preceding question. What is Mike's basis in the new equipment?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $90,000 | **c.** | $94,000 | **d.** | $96,000 | **e.** | $100,000 |  |



Pam's business building is destroyed in a fire. The building had a basis   
of $50,000, and FMV of $103,000. Pam received insurance proceeds $100,000,   
and invested $101,000 in another business building.

|  |  |
| --- | --- |
| Value old asset destroyed | $103,000 |
| Basis of asset destroyed | $50,000 |
| Insurance proceeds | $100,000 |
| Cost of new asset | $101,000 |

If an election is made, Pam will recognize gain of:

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

Continue preceding question. If an election is made, what is Pam’s basis of new property?

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

Natural Power Corporation owns a warehouse with an adjusted basis of $195,000 and an appraised   
FMV of $185,000. The city of Springfield condemns the property for a new airport. The condemnation   
award is $185,000. Natural Power invests $185,000 in a new warehouse on the other side of the city.   
What is the gain or loss that Natural Power Corporation must recognize due to the transactions?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | No gain or loss | **b.** | $10,000 gain | **c.** | $10,000 loss | **d.** | $185,000 gain |  |

Which of the following is/are correct regarding the deferral of gain attributable   
to the involuntary conversion of personal property?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **I.** | | Gain deferral is mandatory. | | |
| **II.** | | Replacement property must be acquired within two years of the close of the tax year  in which gain is realized from an involuntary property damage conversion. | | |
| **a.** | | Only statement I is correct. | | **b.** | Only statement II is correct. | |  |
| **c.** | | Both statements are correct. | | **d.** | Neither statement is correct. | |



Mike sold land to Sue on 1-1-2016 on the installment basis.

|  |  |
| --- | --- |
| Selling price | $100,000 |
| Mike's adjusted basis | 50,000 |
| Sue’s down payment (1-1-2016) | 20,000 |
| Sue's payment (1-1-2017) | 40,000 |
| Sue's payment (1-1-2018) | 40,000 |

Sue also pays applicable interest. What is Mike's capital gain in 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $4,000 | **c.** | $6,000 | **d.** | $10,000 | **e.** | Other |  |

Use the information in the preceding question, except assume that the land was owned   
by Mike’s Realty Corporation (not Mike), and the corporation sold the land to Sue under the   
terms shown above. The corporation is in the 40% bracket. What balance will the corporation   
report in the deferred tax asset or liability account at the end of the year of sale?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $16,000 | **b.** | $20,000 | **c.** | $0 | **d.** | $40,000 | **e.** | Other |  |

**[Pg. 11-35] Pam** sold stock with a basis of $15,000 to **Lisa** (her sister) for $10,000 (it’s FMV).   
Later, **Lisa** sold the stock to her neighbor, **Niki**, for $8,000. How much loss does **Pam** deduct?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $5,000 | **d.** | $7,000 |  |  |

**[Pg. 11-35] Pam** sold stock with a basis of $15,000 to **Lisa** (her sister) for $10,000 (it’s FMV).   
Later, **Lisa** sold this stock to her neighbor, **Niki**, for $16,000. How much gain does **Lisa** report?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $6,000 | **b.** | $5,000 | **c.** | $1,000 | **d.** | $0 |  |  |

**[Pg. 11-35]** Lisa sold some stock she purchased several years ago for $10,000 to her brother Bart for $8,000. One year later Bart sold the stock for $12,000. The tax consequences to Lisa and Bart are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Lisa** | **Bart** |  |  |
| **a.** | $2,000 loss | $4,000 gain |
| **b.** | No gain or loss | $4,000 gain |
| **c.** | No gain or loss | $2,000 gain |
| **d.** | $2,000 gain | No gain or loss |
| **e.** | $2,000 loss | $2,000 gain |

**[Pg. 11-35]** Ann sold stock (she bought for $20,000) to her brother Bill for $12,000.   
Two years later, Bill sold the stock to Allie, an unrelated individual, for $22,000.   
What is Bill's recognized gain or loss?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 0 | **b.** | $2,000 gain | **c.** | $10,000 gain | **d.** | $8,000 loss | **e.** | $6,000 loss |  |