CPA-REGULATION Q&As

CPA Regulation

Pass Test Prep CPA-REGULATION Exam with 100% Guarantee

QUESTION 1

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom\\'s daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom\\'s dependent. Determine the amount of income or loss, if any that should be included on page one of the Moores\\' 1994 Form 1040. The Moores received a stock dividend in 1994 from Ace Corp. They had the option to receive either cash or Ace stock with a fair market value of $900 as of the date of distribution. The par value of the stock was $500.

A. $0

B. $500

C. $900

D. $1,000

E. $1,250

F. $1,300

G. $1,500

H. $2,000

I. $2,500

J. $3,000

K. $10,000

L. $25,000

M. $50,000

N. $55,000

O. $75,000

Correct Answer: C

"C" is correct. $900. If a taxpayer has the option of taking a dividend either in stock or in other property (e.g., cash), the dividend is taxable regardless of the option the taxpayer selects.

QUESTION 2

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom\\'s daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom\\'s dependent. Determine the amount of income or loss, if any that should be included on page one of the Moores\\' 1994 Form 1040. Tom\\'s 1994 wages were $53,000. In addition, Tom\\'s employer provided group-term life insurance on Tom\\'s life in excess of $50,000. The value of such excess coverage was $2,000.

A. $0

B. $500

C. $900

D. $1,000

E. $1,250

F. $1,300

G. $1,500

H. $2,000

I. $2,500

J. $3,000

K. $10,000

L. $25,000

M. $50,000

N. $55,000

O. $75,000

Correct Answer: A

"N" is correct. $55,000. The value of employer-provided group term life insurance for which the face amount exceeds $50,000 is taxable income to the insured employee and the $53,000 in wages would both be included on page one, Form 1040.

QUESTION 3

The uniform capitalization method must be used by:

I. Manufacturers of tangible personal property.

II.

Retailers of personal property with $2 million dollars in average annual gross receipts for the 3 preceding years.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: A

Choice "a" is correct. I only.

Rule: The uniform capitalization rules apply to the following:

1.

Real or tangible personal property produced by the taxpayer for use in a trade or business.

2.

Real or tangible personal property produced by the taxpayer for sale to customers.

3.

Real or personal property acquired by the taxpayer for resale.

4.

However, the uniform capitalization rules do not apply to property acquired for resale if the taxpayer\\'s annual gross receipts for the preceding three tax years do not exceed $10,000,000 (not $2 million).

QUESTION 4

Which one of the following will result in an accruable expense for an accrual-basis taxpayer?

A. An invoice dated prior to year end but the repair completed after year end.

B. A repair completed prior to year end but not invoiced.

C. A repair completed prior to year end and paid upon completion.

D. A signed contract for repair work to be done and the work is to be completed at a later date.

Correct Answer: B

RULE: An accruable expense is one is which the services have been received/performed but have not been paid for by the end of the reporting period.

Choice "b" is correct. The facts indicate that a repair was completed prior to year end but not yet invoiced. If it has not yet been invoiced, it is assumed that it has also not yet been paid for. Therefore, this is a situation in which the repair expense would be accrued at year end. Services have been performed, but they have not been paid for, as they have not even been invoiced yet. Choice "a" is incorrect. If the repair was completed after year end, then the expense is not accruable, as the benefit of the services hasn\\'t been received as of year end. The fact that the repair was invoiced prior to year end does not impact the situation. Choice "c" is incorrect. If a repair was completed and paid for prior to year end, no accrual is appropriate. On the accrual basis, the expense is taken in the year the repair is completed and the benefit is received. In this case, the account payable was also paid in the same year, but this has no effect on the expense. Choice "d" is incorrect. The facts indicate that the work is to be completed at a date later than year end. Therefore, the expense is not accruable at year end, as the benefit of the repair hasn\\'t been received as of year end. It is reasonable that a signed contract for the repair work exists, but this has no effect on the accrual.

QUESTION 5

Ryan, age 57, is single with no dependents. On July 1, 1997, Ryan\\'s principal residence was sold for the net amount of $500,000 after all selling expenses. Ryan bought the house in 1963 and occupied it until sold. On the date of sale, the house had a basis of $180,000. Ryan does not intend to buy another residence. What is the maximum exclusion of gain on sale of the residence that may be claimed in Ryan\\'s 1997 income tax return?

A. $320,000

B. $250,000

C. $125,000

D. $0

Correct Answer: B

Choice "b" is correct. $250,000 maximum exclusion from taxable income.

Rule: An individual may exclude from income up to $250,000 gain provided that the property was the

taxpayer\\'s primary residence for 2 of the last 5 years. Married taxpayers may exclude gains up to

$500,000.

Choice "a" is incorrect. $320,000. Ryan, age 57, was not married. Thus, his exclusion was limited to

$250,000.

Choice "c" is incorrect. The $125,000 exclusion was old law and eliminated for sales after 5/6/97.

Choice "d" is incorrect, per the above rule.