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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. In 1992, Joan received an acre of land as an inter-vivos gift from her grandfather. At the time of the gift, the land had a fair market value of \$50,000. The grandfather's adjusted basis was \$60,000. Joan sold the land in 1994 to an unrelated third party for \$56,000.

- 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

"A" is correct. \$0. Property received by gift has two bases: one for computing gain and another for computing loss. Joan's basis for gain is the grandfather's adjusted basis (\$60,000). Using this basis for gain, Joan has a loss of: $\$56,000 - \$60,000 = (\$4,000 \text{ loss})$. Joan's basis for loss is the fair market value of the property on the date of the gift (\$50,000). Using this basis for loss, Joan has a gain of: $\$56,000 - \$50,000 = \$6,000 \text{ gain}$. In this unusual situation, Joan has neither a gain nor a loss, although the transaction must be reported.

QUESTION 2

Dale received \$1,000 in 1990 for jury duty. In exchange for regular compensation from her employer during the period of jury service, Dale was required to remit the entire \$1,000 to her employer in 1990. In Dale's 1990 income tax return, the \$1,000 jury duty fee should be:



- A. Claimed in full as an itemized deduction.
- B. Claimed as an itemized deduction to the extent exceeding 2% of adjusted gross income.
- C. Deducted from gross income in arriving at adjusted gross income.
- D. Included in taxable income without a corresponding offset against other income.

Correct Answer: C

Choice "c" is correct. The \$1,000 jury duty fee that was required to be remitted to the employer may be deducted from gross income in arriving at adjusted gross income. This, in effect, washes out the \$1,000 income she will have to report as part of gross income for the jury duty fees paid to her. Choices "a" and "b" are incorrect. The amount remitted is allowed as an adjustment in arriving at AGI, not as an itemized deduction. Choice "d" is incorrect. A corresponding offset is allowed against other income as an adjustment in arriving at AGI.

QUESTION 3

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 \$8,400 in gross receipts from their rental property during 1994. The expenses for the residential rental property were:

- 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: I



"I" is correct. \$2,500. Rental activity net income is reported on page one; the gross income (\$8,400) is fully reportable; and all deductions listed (total = \$5,900) are fully deductible for a net of \$2,500.

QUESTION 4

Conner purchased 300 shares of Zinco stock for \$30,000 in 1980. On May 23, 1994, Conner sold all the stock to his daughter Alice for \$20,000, its then fair market value. Conner realized no other gain or loss during 1994. On July 26, 1994, Alice sold the 300 shares of Zinco for \$25,000.

What was Alice's recognized gain or loss on her sale?

- A. \$0
- B. \$5,000 long-term gain.
- C. \$5,000 short-term loss.
- D. \$5,000 long-term loss.

Correct Answer: A

Choice "a" is correct. Alice has a realized gain of \$5,000 on the transaction: \$25,000 sales price less \$20,000 purchase price. However, she can reduce the gain, but not below zero, by the amount of loss her father could not deduct on the sale to her. Thus, Alice can reduce her gain by up to \$10,000, but not below zero. Here, the gain is \$5,000, so it is reduced to zero. Conner should have sold the stock in the open market so that he could deduct the entire loss. Alice could then have purchased the stock in the open market. Choice "b" is incorrect. \$5,000 is Alice's realized long-term gain on the sale. However, she can reduce the gain, but not below zero, by the amount of loss her father could not deduct on the sale to her. Choice "c" is incorrect. Alice has a realized gain of \$5,000 on the sale. However, since she is related to Conner, her holding period includes his holding period. Therefore, her realized gain is long-term. In addition, she can reduce the gain, but not below zero, by the amount of loss her father could not deduct on the sale to her. Choice "d" is incorrect. Alice can reduce the gain by the amount of loss her father could not deduct on the sale to her. However, she cannot reduce the gain below zero.

QUESTION 5

A cash basis taxpayer should report gross income:

- A. Only for the year in which income is actually received in cash.
- B. Only for the year in which income is actually received whether in cash or in property.
- C. For the year in which income is either actually or constructively received in cash only.
- D. For the year in which income is either actually or constructively received, whether in cash or in property.

Correct Answer: D

Choice "d" is correct. A cash basis taxpayer should report gross income for the year in which income is either actually or constructively received, whether in cash or in property.



Choice "a" is incorrect. Income also be constructively received in property - not only actually in cash.

Choice "b" is incorrect. Income also be constructively received - not only actually. Choice "c" is incorrect. Income also be received in property - not only cash.

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