

CPA-REGULATION^{Q&As}

CPA Regulation

Pass Test Prep CPA-REGULATION Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

<https://www.pass2lead.com/cpa-regulation.html>

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by Test Prep Official Exam Center

- ⚙️ **Instant Download** After Purchase
- ⚙️ **100% Money Back** Guarantee
- ⚙️ **365 Days** Free Update
- ⚙️ **800,000+** Satisfied Customers



QUESTION 1

On February 1, 1993, Hall learned that he was bequeathed 500 shares of common stock under his father's will. Hall's father had paid \$2,500 for the stock in 1990. Fair market value of the stock on February 1, 1993, the date of his father's death, was \$4,000 and had increased to \$5,500 six months later. The executor of the estate elected the alternate valuation date for estate tax purposes. Hall sold the stock for \$4,500 on June 1, 1993, the date that the executor distributed the stock to him. How much income should Hall include in his 1993 individual income tax return for the inheritance of the 500 shares of stock, which he received from his father's estate?

- A. \$5,500
- B. \$4,000
- C. \$2,500 D. \$0

Correct Answer: D

Choice "d" is correct. There is no income tax on the value of inherited property. The gain on the sale is the difference between the sales price of \$4,500 and Hall's basis. Hall's basis is the alternate valuation elected by the executor. This is the value 6 months after date of death or date distributed if before 6 months. The property was distributed 4 months after death and the value that day (\$4,500) is used for the basis. \$4,500

$-\$4,500 = 0$.

Choice "a" is incorrect. There is no income tax on the value of inherited property.

Choice "b" is incorrect. This is the basis of the stock if the alternate date had not been used. Heirs are not taxed on inheritances. The income or loss results when inherited property is sold. Choice "c" is incorrect.

There is no income tax on the value of inherited property. The gain on the sale is the difference between the sales price of \$4,500 and Hall's basis. Hall's basis is the alternate valuation elected by the executor.

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. 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 3

Which of the following statements is the best definition of real property?

- A. Real property is only land.
- B. Real property is all tangible property including land.
- C. Real property is land and intangible property in realized form.
- D. Real property is land and everything permanently attached to it.

Correct Answer: D

Choice "d" is correct. Real property includes land and all items permanently affixed to the land (e.g., buildings, paving, etc.) Choice "a" is incorrect. Real property includes more than just the land (as per the explanation above); it includes all items permanently affixed to land.

Choice "b" is incorrect. "All" tangible property could include moveable personal property and is therefore, incorrect.

Choice "c" is incorrect. "Intangible property in realized form" is a distracter and a contradiction in terms.

QUESTION 4

Gibson purchased stock with a fair market value of \$14,000 from Gibson's adult child for \$12,000. The child's cost basis in the stock at the date of sale was \$16,000. Gibson sold the same stock to an unrelated party for \$18,000. What

is Gibson's recognized gain from the sale?

- A. \$0
- B. \$2,000
- C. \$4,000
- D. \$6,000

Correct Answer: B

Choice "b" is correct. Losses are disallowed on most related party sales transactions even if they were made at an arm's length (FMV) price. The basis (and related gain or loss) of the (second) buying relative depends on whether the second relative's resale price is higher, lower, or between the first relative's basis and the lower selling price to the second relative. In this case, the \$4,000 capital loss on the sale by Gibson's adult child to Gibson [\$12,000 SP - \$16,000 Basis] is disallowed. Gibson's basis is determined by his selling price to a third party. In this case, the selling price is \$18,000, which is HIGHER than the original basis of Gibson's adult child. Gibson's basis in the stock is, therefore, his adult child's basis of \$16,000.

Gibson's recognized basis is calculated as follows:

| | |
|---------------|-----------------|
| Selling price | \$18,000 |
| Basis | <u>(16,000)</u> |
| Gain | <u>\$ 2,000</u> |

Choice "a" is incorrect. There would be a zero gain or loss if the selling price were between the adult child's basis and Gibson's purchase price, but this is not the case in the facts. Choice "c" is incorrect. This answer option uses the fair market value of the stock at the date of purchase as the basis. As is discussed above, the rules do not provide for this treatment. [\$18,000 SP - \$14,000 FMV = \$4,000] Choice "d" is incorrect. This would be the answer if the basis were Gibson's purchase price of \$12,000; however, because the stock sold for more than Gibson's child's basis and the child had a disallowed loss on the sale to Gibson, Gibson is allowed to use his child's original basis of \$16,000 as his basis for the stock on the date of the second sale. [\$18,000 SP - \$12,000 PP = \$6,000]

QUESTION 5

Baum, an unmarried optometrist and sole proprietor of Optics, buys and maintains a supply of eyeglasses and frames to sell in the ordinary course of business. In 1999, Optics had \$350,000 in gross business receipts and its year-end inventory was not subject to the uniform capitalization rules. Baum's 1999 adjusted gross income was \$90,000 and Baum qualified to itemize deductions. During 1999, Baum recorded the following information: Business expenses:

| | |
|---|----------|
| Optics cost of goods sold | \$35,000 |
| Optics rent expense | \$28,000 |
| Liability insurance premium on Optics | \$ 5,250 |
| Other expenditures: | |
| Baum's self-employment tax | \$29,750 |
| Baum's self-employment health insurance | \$ 8,750 |
| Insurance premium on personal residence. In 1999, Baum's home was totally destroyed by fire. The furniture had an adjusted basis of \$14,000 and a fair market value of \$11,000. During 1999, Baum collected \$3,000 in insurance reimbursement and had no casualty gains during the year. | \$ 2,625 |
| Qualified 1999 mortgage interest on a loan to acquire a personal residence | \$52,500 |
| Annual interest on a \$70,000, 5-year home equity loan. The loan was secured by Baum's home, obtained January 2, 1999. The fair market value of the home exceeded the mortgage and the home equity loan by a substantial amount. The proceeds were used to purchase a car for personal use. | \$ 3,500 |
| Points prepaid on January 2, 1999 to acquire the home equity loan | \$ 1,400 |
| Real estate taxes on personal residence | \$ 2,200 |
| Estimated payments of 1999 federal income taxes | \$13,500 |
| Local property taxes on the car value, used exclusively for personal use | \$ 300 |

What amount should Baum report as 1999 net earnings from self-employment?

- A. \$243,250
- B. \$252,000
- C. \$273,000
- D. \$281,750

Correct Answer: D

Choice "d" is correct. Baum should report \$281,750 as 1999 net earnings from self-employment (line 12 of the Form 1040), calculated as follows:

| | |
|-----------------------------|------------------|
| Gross business receipts | \$350,000 |
| Cost of goods sold | (35,000) |
| Rent expense | (28,000) |
| Liability insurance premium | (5,250) |
| Net earnings on Schedule C | <u>\$281,750</u> |

Choices "a", "b", and "c" are incorrect. Self-employment tax and self-employment health insurance expenses are adjustments from total gross income. They are not deducted from self-employment earnings (i.e., not reported net on line 12 of the Form 1040). Note: There are many distracters in this question, all relating to items that are either deductible as part of itemized deductions or not deductible. Be careful to read the requirement of the question before spending unnecessary time on the question. The statement that Baum's year-end inventory was not subject to the uniform capitalization rules is a distracter as well. There is not enough information given in the facts to apply the rules if he had been subject to them.

[CPA-REGULATION VCE
Dumps](#)

[CPA-REGULATION Study
Guide](#)

[CPA-REGULATION
Braindumps](#)