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QUESTION 1

Under the Revised Model Business Corporation Act, which of the following must be contained in a corporation's articles of incorporation?

- A. Quorum voting requirements.
- B. Names of stockholders.
- C. Provisions for issuance of par and nonpar shares.
- D. The number of shares the corporation is authorized to issue.

Correct Answer: D

Explanation:

Choice "d" is correct. The articles must set out the corporation's authorized shares.

Choice "a" is incorrect. Quorum requirements, if stated at all, usually are in the bylaws; they need not be included in the articles of incorporation.

Choice "b" is incorrect. The articles need not include the names of stockholders.

Choice "c" is incorrect. The RMBCA has eliminated the concept of par value and so does not have a requirement that par value be established in the articles.

QUESTION 2

Rich is a cash basis self-employed air-conditioning repairman with 1993 gross business receipts of \$20,000. Rich's cash disbursements were as follows:

Yellow Pages listing	2,000
Estimated federal income taxes on self-employment income	1,000
Business long-distance telephone calls	400
Charitable contributions	200

What amount should Rich report as net self-employment income?

- A. \$15,100 B. \$14,900
- C. \$14,100
- D. \$13,900

Correct Answer: A

Explanation:

Choice "a" is correct. Deductions to arrive at net self-employed income include all necessary and ordinary expenses connected with the business. Estimated federal income tax payments are not an expense.

Charitable contributions by an individual are only deductible as an itemized deduction on Schedule A. This assumes the contribution was not made with the "expectation of commensurate financial return."

Receipts	\$20,000
Parts	(2,500)
Listing	(2,000)
Telephone	(400)
Net self-employment income	<u>\$15,100</u>

Choice "b" is incorrect. Charitable contributions are an itemized deduction unless there is an expectation of commensurate financial return.

Choice "c" is incorrect. Federal income taxes paid are not a deductible expense.

Choice "d" is incorrect. Charitable contributions are an itemized deduction unless there is an expectation of commensurate financial return. Federal income taxes paid are not a deductible expense.

QUESTION 3

What term is used to describe a partnership without a specified duration?

- A. A perpetual partnership.
- B. A partnership by estoppel.
- C. An indefinite partnership.
- D. A partnership at will.

Correct Answer: D

Explanation: Choice "d" is correct. A partnership at will is a partnership with no definite term (i.e., without specified duration). Such a partnership can be terminated at any time. Choice "a" is incorrect. A partnership without a specified duration is called a partnership at will, not a perpetual partnership. There is no such thing as a perpetual partnership because a partnership is not perpetual. A partnership may be dissolved after a partner dies or otherwise dissociates from the partnership. Choice "b" is incorrect. A partnership by estoppel is the appearance of a partnership when there is no formal partnership. If parties who are not partners give the appearance to third parties that they are partners, the law may deem the parties to be a partnership by estoppel. The parties will be treated as partners, even though they are not. Choice "c" is incorrect. The legal term for a partnership of indefinite duration is a partnership at will, not an indefinite partnership.

QUESTION 4

ABC Corp. had the following infrequent transactions during 1989:

•

A \$190,000 gain on reacquisition and retirement of bonds. This material event is also considered unusual for ABC Corp.

•

A \$260,000 gain on the disposal of a component of a business. ABC continues similar operations at another location.

•

A \$90,000 loss on the abandonment of equipment.

In its 1989 income statement, what amount should ABC report as total infrequent net gains that are not considered extraordinary?

- A. \$100,000
- B. \$170,000
- C. \$360,000
- D. \$450,000

Correct Answer: B

Explanation:

Infrequent net gains not considered extraordinary include:

Gain on disposal of a component of a business	\$260,000
Loss on abandonment of equipment	(90,000)
Total	<u>\$170,000</u>

Choice "b" is correct. \$170,000.

QUESTION 5

On December 1, 1997, Krest, a self-employed cash basis taxpayer, borrowed \$200,000 to use in her business. The loan was to be repaid on November 30, 1998. Krest paid the entire interest amount of \$24,000 on December 1, 1997. What amount of interest was deductible on Krest's 1997 income tax return?

- A. \$0
- B. \$2,000

C. \$22,000

D. \$24,000

Correct Answer: B

Explanation: Choice "b" is correct. Cash basis taxpayers deduct interest in the year paid or the year to which the interest relates, whichever is later. Even though all of the interest on this loan was paid on December 1, 1997, only the interest relating to December 1997 can be deducted in 1997. The question does not give an interest rate, but because the loan is to be repaid in a lump sum at maturity, 1/12 of the interest, or \$2,000 applies to each month. Choice "a" is incorrect. Because \$2,000 of the interest relates to 1997, this amount is deductible in 1997. Choice "c" is incorrect. This is the amount that cannot be deducted until 1998, the year to which the interest relates. Be sure to read questions like this very carefully, because if you had simply misread the question as seeking the amount deductible in 1998, you would get the question wrong despite understanding the rule. Choice "d" is incorrect. Cash basis taxpayers can deduct interest in the year paid or the year to which the interest relates, whichever is later, thus 11 months of the interest will not be deductible until 1998.

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