CPA-REGULATION^Q&As

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QUESTION 1

Under the uniform capitalization rules applicable to taxpayers with property acquired for resale, which of the following costs should be capitalized with respect to inventory if no exceptions have been met?

	Repackaging costs	Off-site storage costs
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

Choice "a" is correct. Direct material, direct labor, and factory overhead (applicable indirect costs) are

capitalized with respect to inventory under the uniform capitalization rules for property acquired for resale.

Applicable indirect costs include depreciation and amortization, insurance, supervisory wages, utilities,

spoilage and scrap, design expenses, repair and maintenance and rental of equipment and facilities

(including offsite storage), some administrative costs, costs of bonus and other incentive plans, and

indirect supplies and other materials (including repackaging costs).

Choices "b", "c", and "d" are incorrect, per the above discussion.

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. During 1994, the Moores received a $2,500 federal tax refund and a $1,250 state tax refund for 1993 overpayments. In 1993, the Moores were not subject to the alternative minimum tax and were not entitled to any credit against income tax. The Moores\\' 1993 adjusted gross income was $80,000 and itemized deductions were $1,450 in excess of the standard deduction. The state tax deduction for 1993 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: E

"E" is correct. $1,250. The Moores itemized deductions in 1993 because such deductions were $1,450 in excess of the standard deduction. The amount of state taxes deducted in 1993 was $2,000, which (along with the fact that the Moores were not subject to alternative minimum tax, which may have reduced their tax benefit) indicates that the Moores received a tax benefit in 1993 from deducting the $1,250 state tax refund they received in 1994. The $1,250 is taxable in 1994.

QUESTION 3

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 amount of the loss from the sale of Zinco stock can Conner deduct in 1994?

A. $0

B. $3,000

C. $5,000

D. $10,000

Correct Answer: A

Choice "a" is correct. Even though Conner has a realized loss of $10,000 on this transaction he cannot deduct the loss since it was incurred in a transaction with his daughter, a related party. Choice "b" is incorrect. $3,000 is the limit on deductible net capital losses. However, Conner cannot deduct this loss, since it was incurred in a transaction with his daughter, a related party. Choice "c" is incorrect. Conner\\'s realized loss on the sale is $10,000 ($20,000 proceeds less $30,000 basis). However, Conner cannot deduct this loss, since it was incurred in a transaction with his daughter, a related party. Choice "d" is incorrect. $10,000 is Conner\\'s realized loss on the sale. However, Conner cannot deduct this loss, since it was incurred in a transaction with his daughter, a related party.

QUESTION 4

Fred Berk bought a plot of land with a cash payment of $40,000 and a mortgage of $50,000. In addition, Berk paid $200 for a title insurance policy. Berk\\'s basis in this land is:

A. $40,000

B. $40,200

C. $90,000

D. $90,200

Correct Answer: D

Choice "d" is correct. $90,200 is Berk\\'s basis in the land.

Rule: The basis of the property acquired will be the property\\'s cost consisting of the amount of cash paid

plus any amount of related debt assumed. Cost will be adjusted to reflect any additional costs incurred in

purchasing the property.

Cash payment	$40,000
Related debt	50,000
Purchase price	$90,000
Add: Cost of title policy	200
Total basis in the land	$90,200

Choices "a", "b", and "c" are incorrect, per the above rule.

QUESTION 5

Doris and Lydia are equal partners in the capital and profits of Agee and Nolan, but are otherwise unrelated. The following information pertains to 300 shares of Mast Corp. stock sold by Lydia to Agee and Nolan:

Year of purchase	1980
Year of sale	1988
Basis (cost)	$9,000
Sales price (equal to fair market value)	$4,000

The amount of long-term capital loss that Lydia realized in 1988 on the sale of this stock was:

A. $5,000

B. $3,000

C. $2,500

D. $0

Correct Answer: A

Choice "a" is correct. $5,000 long term capital loss "realized" in 1988 by Lydia. Be careful, and always check the question being asked. In this case, the question is how much of a capital loss Lydia realized in 1988.

Sales price (FMV)	$4,000
Basis (cost)	(9,000)
Loss realized	(5,000)

Choice "b" is incorrect. $3,000 represents the portion of the $5,000 realized loss that would currently be recognized unless there were additional capital transactions resulting in gains. Remember that the deduction for capital losses for an individual is limited to $3,000 each year. Choice "c" is incorrect. $2,500 represents the pre-1986 portion of the $5,000 realized loss that would have given rise to a recognized loss. Pre-1986 law required $2 of net long term loss to give the benefit of $1 of tax deduction. Current law gives a dollar-for-dollar deduction limited to $3,000 in any year. Choice "d" is incorrect. $0 would have been the amount of loss recognized if Lydia owned more than a 50% interest in the partnership. Losses realized on transactions between a partnership and a partner owning more than a 50% interest are not deductible as the parties would be considered related and any realized loss would be disallowed.