CPA-REGULATION^Q&As

CPA Regulation

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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

Barkley owns a vacation cabin that was rented to unrelated parties for 10 days during the year for $2,500. The cabin was used personally by Barkley for three months and left vacant for the rest of the year. Expenses for the cabin were as follows:

Real estate taxes $1,000 Maintenance and utilities $2,000

How much rental income (loss) is included in Barkley\\'s adjusted gross income?

A. $0

B. $500

C. $(500)

D. $(1,500)

Correct Answer: A

RULE: If a vacation residence is rented for less than 15 days per year, it is treated as a personal residence. The rental income is excluded from income, and mortgage interest (first or second home) and real estate taxes are allowed as itemized deductions. Depreciation, utilities, and repairs are not deductible.

Choice "a" is correct. Applying the rule above, if a vacation residence is rented for less than 15 days per year, it is treated as a personal residence. The rental income ($2,500 in this case) is excluded from income. A Schedule E is not filed for this property (i.e., no income is reported, the taxes are reported as itemized deductions, and the maintenance and utilities are not deductible), so the effect on AGI is zero. Choice "b" is incorrect. This assumes that the property taxes are reported as itemized deductions but that the rental income ($2,500) less the maintenance and utilities ($2,000) are reported net on Schedule E. Per the above RULE, the rental income is excluded from income, and the maintenance and utilities are not deductible. Choice "c" is incorrect. This assumes that all of the items shown are reported net on the Schedule E-$2,500 - $1,000 - $2,000 = ($500). Per the above RULE, the rental income is excluded from income, the maintenance and utilities are not deductible, and the property taxes are reported on Schedule A as an itemized deduction. Choice "d" is incorrect, per the above rule and discussion.

QUESTION 3

Farr made a gift of stock to her child, Pat. At the date of gift, Farr\\'s stock basis was $10,000 and the stock\\'s fair market value was $15,000. No gift taxes were paid. What is Pat\\'s basis in the stock for computing gain?

A. $0

B. $5,000

C. $10,000

D. $15,000

Correct Answer: C

Choice "c" is correct. Property acquired as a gift generally retains the rollover cost basis as it had in the hands of the donor at the time of the gift. Basis is increased by any gift tax paid that is attributable to the net appreciation in the value of the gift. Since there were no gift taxes paid, Pat\\'s basis for computing a gain is the rollover cost (basis), $10,000. Choices "a", "b", and "d" are incorrect, per the explanation above.

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

Parker, whose spouse died during the preceding year, has not remarried. Parker maintains a home for a dependent child. What is Parker\\'s most advantageous filing status?

A. Single.

B. Head of household.

C. Married filing separately.

D. Qualifying widow(er) with dependent child.

Correct Answer: D

Choice "d" is correct. A qualifying widow (er) is a taxpayer who may use the joint tax return standard deduction and rates (but not the exemption for the deceased spouse) for each of two taxable years following the year of death of his or her spouse, unless he or she remarries. The surviving spouse must maintain a household that, for the whole entire taxable year, was the principal place of abode of a son, stepson, daughter, or stepdaughter (whether by blood or adoption). The surviving spouse must also be entitled to a dependency exemption for such individual. Parker may file as a qualifying widow (er) since her spouse died in the previous tax year, she did not remarry and she maintained a home for a dependent child. Since, qualifying widow (er) is the most advantageous status and Parker qualifies, Parker would file as a qualifying widow (er). Choice "a" is incorrect. Even though Parker would qualify as single, filing single would give Parker a high tax liability than the qualifying widow (er) status and therefore is not most advantageous. Choice "b" is incorrect. Parker would not qualify as head of household for the first two years after the death of Parker\\'s spouse because one of the requirements for Head of Household status is that the taxpayer is NOT a surviving spouse. (Also, note that the likely reason for this requirement is that filing as Head of Household status would give the qualifying surviving spouse taxpayer a higher tax liability than the Qualifying Widow(er) status, which would be less advantageous.) Choice "c" is incorrect. Parker would not qualify to file married filing separately.