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Question 1

Question Type: **MultipleChoice**

Capital assets include:

Options:

A- A corporation's accounts receivable from the sale of its inventory.

B- Seven-year MACRS property used in a corporation's trade or business.

C- A manufacturing company's investment in U.S. Treasury bonds.

D- A corporate real estate developer's unimproved land that is to be subdivided to build homes, which will be sold to customers.

Answer:

C

Explanation:

Choice 'c' is correct. Investment assets of a taxpayer that are not inventory are capital assets. The manufacturing company would have capital assets including an investment in U.S. Treasury bonds.

Choice 'a' is incorrect. Accounts receivable generated from the sale of inventory are excluded from the statutory definition of capital assets.

Choice 'b' is incorrect. Depreciable property used in a trade or business is excluded from the statutory definition of capital assets.

Choice 'd' is incorrect. Land is usually a capital asset, but when it is effectively inventory, as when it is used by a developer to be subdivided, it is excluded from the statutory definition of capital assets.

Question 2

Question Type: MultipleChoice

Leker exchanged a van that was used exclusively for business and had an adjusted tax basis of $20,000 for a new van. The new van had a fair market value of $10,000, and Leker also received $3,000 in cash. What was Leker's tax basis in the acquired van?

Options:

A- $20,000

B- $17,000

C- $13,000

D- $7,000

Answer:

B

Explanation:

Choice 'b' is correct. $17,000 is the tax basis in the van.

The basis for like-kind exchanges is computed as follows:

Basis of old property	$20,000
Less: Boot received	(3,000)
New basis	$17,000

The general rule is the gain is recognized to the extent boot is received. As the transaction results in a loss to Leker (he received an asset worth $10,000 plus $3,000 cash less a $20,000 tax basis equals $7,000 loss) no gain is recognized and the $3,000 received reduces his basis in the new asset.

Choice 'a' is incorrect. Basis must be reduced by non-like-kind assets (boot) received.

Choice 'c' is incorrect. For non-like-kind exchanges, the basis would be the FMV of the assets received ($10,000 FMV plus $3,000 Boot). However, because both assets have similar use, this is a like-kind exchange, which follows the rule above.

Choice 'd' is incorrect. The basis of the old property is used to calculate the basis of the new property, less any boot received.

Question 3

Question Type: **MultipleChoice**

Smith made a gift of property to Thompson. Smith's basis in the property was $1,200. The fair market value at the time of the gift was $1,400. Thompson sold the property for $2,500. What was the amount of Thompson's gain on the disposition?

Options:

A- $0

B- $1,100

C- $1,300

D- $2,500

Answer:

C

Explanation:

Choice 'c' is correct. The general rule for the basis on gifted property is that the donee receives the property with a rollover cost basis (equal to the donor's basis). An exception exists where the fair market value of the property at the time of the gift is less than the donor's basis. That is not the case in this question; thus, the calculation of the gain on the disposition of the property is:

Amount realized	$2,500
Basis	(1,200)
Gain recognized	$1,300

Choice 'a' is incorrect. This choice could be correct if the facts of the question met the exception whereby no gain or loss is recognized when a donee sells gifted property for an amount between the donor's basis and the fair market value at the date of the gift.

Choice 'b' is incorrect. This choice uses the basis as the fair market value of the property. Fair market value of property at date of death is used as the basis for inherited property, not gifted property.

Choice 'd' is incorrect. This choice assumes that Thompson's basis is zero. His basis is $1,200 as indicated above.

Question 4

Question Type: MultipleChoice

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

Options:

A- Option A

B- Option B

C- Option C

D- Option D

Answer:

A

Explanation:

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.

Individual Taxation - Capital Gains and Losses

Question 5

Question Type: **MultipleChoice**

Which of the following is subject to the Uniform Capitalization Rules of Code Sec. 263A?

Options:

A- Editorial costs incurred by a freelance writer.

B- Research and experimental expenditures.

C- Mine development and exploration costs.

D- Warehousing costs incurred by a manufacturing company with $12 million in annual gross receipts.

Answer:

D

Explanation:

Choice 'd' is correct. Uniform capitalization rules apply to the following: (1) real or tangible personal property produced by the taxpayer for use in his or her trade or business; (2) real or tangible personal property produced by the taxpayer for sale to his or her customers; and (3) real or tangible personal property acquired by the taxpayer for resale, provided the taxpayer's annual average gross receipts for the preceding three years exceeds $10,000,000. Warehousing costs incurred by a manufacturing company (making inventory for sale to its customers) are subject to the Uniform Capitalization Rules.

Further, they are the only item on the list that is real or tangible personal property. In this case, the inventory is not acquired for resale (it is produced by the taxpayer for sale to his or her customers), so the fact that the annual sales are $12,000,000 does not matter in this case. The sales could have been less than $10,000,000 annually, and the Uniform Capitalization Rules would still have applied.

Choices 'a', 'b', and 'c' are incorrect, based on the above discussion.

Question 6

Question Type: **MultipleChoice**

In the current year Jensen had the following items:

Salary	$50,000
Inheritance	25,000
Alimony from ex-spouse	12,000
Child support from ex-spouse	9,000
Capital loss on investment stock sale	(6,000)

What is Jensen's AGI for the current year?

Options:

A- $44,000

B- $59,000

C- $62,000

D- $84,000

Answer:

B

Explanation:

Choice 'b' is correct. The question asks for AGI, but all of the items in the list are items of potential gross income. There are no adjustments included in the list; therefore, in this case, AGI is the same as gross income. The calculation is as follows:

Salary	$50,000	
Inheritance	0	[not taxable]
Alimony from ex-spouse	12,000	
Child support from ex-spouse	0	[not taxable]
Capital loss on investment stock sale	(3,000)	[maximum deductible]
AGI	**$59,000**	

Choices 'a', 'c', and 'd' are incorrect, per the above calculation.