Concepts in Federal Taxation 2020 27th edition Murphy Test Bank

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TRUE/FALSE

1 : Under the pay-as-you-go concept, the tax base used to compute the taxpayer's income tax liability is a net income number.
A : true
B : false

Correct Answer : B

2 : The administrative convenience concept explains that some items may be omitted from the tax base whenever the cost of implementing a concept exceeds the benefit of using it.
A : true
B : false

Correct Answer : A

3 : John sells his uncle Bob's land held for investment for $10,000. John had purchased the land 3 years ago for $12,000 from Bob. John is precluded from taking the $2,000 loss under the arm's-length transaction concept since this is a related party transaction.
A : true
B : false

Correct Answer : B

4 : Under the ability-to-pay concept, taxpayers are required to have tax withheld from their income or to make estimated tax payments so that they can avoid a large tax liability at the end of the year.
A : true
B : false

Correct Answer : B

5 : An individual can legally assign income to another individual, and the assignment relieves the owner of the income from paying tax on the income.
A : true
B : false

Correct Answer : B

6 : Benji hired his three-year-old son to work in his engineering consulting firm. As long as Benji fills out all the forms and properly deposits the paychecks in his son's bank account, he will be able to deduct the expenditure as a business expense.
A : true
B : false

Correct Answer : B

7 : Any deduction taken in a prior year that is recovered in a subsequent year is reported as income in the year it is recovered, to the extent that a tax benefit was received from the deduction.
A : true
B : false

Correct Answer : A

8 : Under the all-inclusive income concept, the tax law always starts with the proposition that anything of value received is considered taxable.
A : true
B : false

Correct Answer : A

9 : Frank rents an apartment to Pete and collects a cleaning deposit to be repaid at the end of the lease. Under the claim-of-right doctrine, Frank includes the deposit in income when collected.
A : true
B : false

Correct Answer : B

10 : The Nadal Company mails its annual dividend checks to shareholders on December 31 of the current year. Even though shareholders receive their checks in the following year, they must report the income in the current year when their checks were written and mailed.
A : true
B : false

Correct Answer : B

11 : Under the wherewithal-to-pay concept, income should be recognized and a tax paid on the income when the taxpayer has the resources to pay the tax.
A : true
B : false

Correct Answer : A

12 : Bethany bought a new suit to wear at work. She cannot deduct the cost of the suit even though she wears it at work.
A : true
B : false

Correct Answer : A

13 : An asset’s adjusted basis is the amount of unrecovered investment in it after considering any increases and decreases in the original amount invested in the asset.
A : true
B : false

Correct Answer : A

14 : The taxpayer will be able to benefit from capital recovery on business equipment over the life of the asset, and any remaining capital will be recovered when the asset is sold.
A : true
B : false

Correct Answer : A

15 : Legislative grace concept indicates that nothing is deductible unless a provision in the tax law allows the deduction.

A : true
B : false

Correct Answer : A

SHORT RESPONSE

16 : Fran Holloway is an active dealer in used automobiles. While preparing her income tax return, you notice that she purchased one automobile for $7,000 and sold it one month later for $5,800 to Brian Holloway Enterprises. Explain, in terms of the income tax concepts, why the $1,200 loss on the sale of the automobile may not be deductible.

Correct Answer : If Fran and Brian Holloway Enterprises are related parties, the $1,200 loss on the sale would not be deductible. Because related parties are not deemed to transact at arm's-length, transactions between related parties are usually not given their intended tax effect. In addition, the substance-over-form doctrine would require the substance of the transaction to be recognized. If Fran and Brian are husband and wife (or brother and sister), the substance of the transaction would be a sale for $5,800 and a gift of $1,200.

17 : Fran Holloway is an active dealer in used automobiles. While preparing her income tax return, you notice that she purchased one automobile for $7,000 and sold it one month later for $5,800 to Brian Holloway Enterprises. Explain, in terms of the income tax concepts, why the $1,200 loss on the sale of the automobile may not be deductible.

Correct Answer : a.Derek Builders must recognize the $5,000 contract price in 2019. Under the accrual method of accounting, income is recognized in the year in which it is earned. The income was earned when Derek completed the contract in December. Under the annual accounting period concept, each tax year stands alone, separate and apart from other tax years. When Derek becomes aware that the full amount of Helen's debt will not be repaid, it should take a $2,000 ($3,000 – $1,000) bad debt deduction in 2020. b.The annual accounting period concept does not allow Derek to go back and amend prior year's returns when new information about an item becomes available. Derek must account for the transaction in 2021. In 2021, Derek now knows that the correct amount of the income from the contract is $3,500. Because Derek deducted $2,000 of the amount owed by Helen in 2020 as a bad debt, it has recognized only $3,000 of income. Under the tax benefit rule, Derek Builders must recognize $500 of the 2020 bad debt deduction as income in 2021.?

18 : Fran Holloway is an active dealer in used automobiles. While preparing her income tax return, you notice that she purchased one automobile for $7,000 and sold it one month later for $5,800 to Brian Holloway Enterprises. Explain, in terms of the income tax concepts, why the $1,200 loss on the sale of the automobile may not be deductible.

Correct Answer : a.Jaime has realized $25,000 of income in 2019. She has a claim of right to the cash when it is received. The value of the sailboat is not recognized until 2020. Even though she won the sailboat in 2019, Jaime is not in constructive receipt of the sailboat at the end of 2019 because it has not been made available for her use. b.Thurman Corporation is a conduit entity, and $2,000,000 is a qualified business income (QBI) on which it is entitled to deduct 20 percent. So, $1,600,000 of income flows through to the owners. Therefore, Barry will report his share, $480,000, of Thurman's income in the current year. Cash dividends of $300,000 has been realized but is not subject to tax because it is deemed to be a capital recovery of his investment in Thurman. c.Yolanda has realized the $50,000 bonus when it is received. She has

a claim of right to the bonus because she is not under a strict obligation to repay the bonus. The fact that she may have to repay the bonus is not a substantial restriction on her use of the bonus money. d.Randy has realized income from the payment of the fine by his employer. He is in constructive receipt of the $1,000 and has no current obligation to repay it. He has a claim-of-right to the money.

19 : Fran Holloway is an active dealer in used automobiles. While preparing her income tax return, you notice that she purchased one automobile for $7,000 and sold it one month later for $5,800 to Brian Holloway Enterprises. Explain, in terms of the income tax concepts, why the $1,200 loss on the sale of the automobile may not be deductible.

Correct Answer : a.Thomas has a claim of right to the $5,000. Although Thomas will have to repay the $5,000 if discovered, it is yet to be discovered. Therefore, there is no definitive obligation to repay currently. b.Bernice has a claim of right to the $500,000 agent fee. She has no legal obligation to repay it to Drew. Bernice has no claim of right to the other $4,500,000. Contractually, Bernice must distribute the funds. Drew has a claim of right to the $5,000,000 since he earned it by signing the contract with the Tigers. It was Drew's choice to give his mother $600,000. Drew must recognize the entire $5,000,000 as gross income, but he will be allowed to deduct the $500,000 agent fee as a business expense. The $600,000 gift to his mother is not deductible. c.Karl has a claim of right to the retainer. Although he may have to repay part of it, no definitive obligation to repay exists yet. No specific repayment amount can be identified.

20 : Explain the similarities and differences between the claim-of-right doctrine and the constructive receipt doctrine.

Correct Answer : The constructive receipt doctrine applies when the taxpayer has not yet physically received an item of income. Whether the taxpayer has the income within his/her control is the determinative question. The claim-of-right doctrine applies when the taxpayer has actually received the income. The question is whether the amount is currently taxable. If a binding commitment or legal obligation to return the funds exists, then the income is not currently taxable.

21 : Robin owns an appliance store. Robin gives Tim a stereo unit to paint the front of her store building. The stereo unit, included in Robin's inventory at a cost of $400, normally retails for $700. If Tim had billed Robin for his work like he charged other customers, he would have sent Robin a bill for $600. Does Tim have income from the receipt of the stereo unit? If so, what amount should Tim report as gross income? Explain in terms of the income tax concepts.

Correct Answer : Under the all-inclusive income concept, all income received is taxable unless specifically excluded. Income can be received in any form; it does not have to be received in cash (cash-equivalent approach). Therefore, Tim realized income when he received the stereo unit because it resulted in an increase in his wealth and was the result of an arm’s-length transaction. Tim must include the $700 fair market value of the stereo in his gross income because that is the value he received in exchange for his services.

22 : At what three points in time might a given expenditure be deductible??a. _____?b. _____?c. _____

Correct Answer : a.As paid or incurred b.Over the life of the asset c.On disposition of the asset

23 : Belinda purchases a computer system costing $6,000. During the current year, 70% of the use of the computer is for keeping the records of her plasticware business, 20% of the use is for tracking her investments, and 10% of

the use is personal. Explain the treatment of the computer according to the income tax concepts.

Correct Answer : The use of the computer in her plasticware business and for managing her investments has a business purpose, and she will be allowed a deduction for each use. However, trade or business expenses are treated differently for tax purposes than investment expenses, and she will have to account for each use separately under the entity concept. The personal use of the computer lacks a business purpose and is not deductible. The computer is a capital expenditure because it provides benefits that extend substantially beyond the end of the current year. Therefore, Belinda is not allowed a current deduction for the cost of the computer; she will be allowed a capital recovery on the business and investment use of the computer over its tax life using prescribed tax depreciation methods.

24 : Carl purchased a building costing $120,000 in 2001 for use in his landscape business. In 2010, he built an addition to the building at a cost of $30,000. In 2013, a tornado damaged the building. The cost of repairing the building was $22,000, and Carl's insurance company paid $16,000 of the cost of the repairs. Depreciation deducted on the building for 2001 through 2019 totaled $18,000. What is Carl's adjusted basis in the building at the end of 2019? Explain.

Correct Answer : Carl's adjusted basis is $132,000 ($120,000 + $30,000 – $18,000). The cost of the building addition is a capital expenditure and must be added to the basis of the building. The depreciation deductions are a capital recovery of the cost of the building and reduce Carl's investment in the building. The tornado damage does not affect the basis of the building because the $22,000 cost of repairing the building is fully recovered through the receipt of the $16,000 of insurance proceeds and the $6,000 loss deduction he is allowed on the building.

25 : Baron pays $4,000 in legal fees. Under what conditions can Baron deduct the legal fees?

Correct Answer : To be deductible, an expense must have a business purpose that exceeds any tax avoidance motive. This is interpreted to mean that the expense be related to either a trade or business of the taxpayer or a production of income (investment) activity. Therefore, if the legal fees relate to Baron's trade or business or to an investment, he will be able to deduct the fees. If they relate to a personal activity, then they are not deductible.

26 : Baron pays $4,000 in legal fees. Under what conditions can Baron deduct the legal fees?

Correct Answer : a.Tax benefit rule, Annual accounting period concept b.Claim-of-right doctrine, Accounting method, All-inclusive income concept c.Business purpose concept, Capital recovery concept, Legislative grace concept d.All-inclusive income concept, Capital recovery concept, Legislative grace concept, Realization concept e.All-inclusive income concept, Legislative grace concept, Business purpose concept, Capital recovery concept

27 : On November 1, 2018, Milton Consultants, Inc., enters into a 2-year lease agreement for the use of a photocopier. The lease agreement requires Milton Consultants to pay a fixed fee of $4,800 on November 1 and one cent for each copy made on a monthly basis. Milton made the $4,800 payment on November 1, 2019. It paid $450 on December 10, 2019, for copies made in November and $560 on January 12, 2020, for copies made in December. Milton Consultants Inc., uses the cash basis of accounting. Explain, in terms of the income tax concepts, the amount of the deduction that Milton can take in 2019 for the use of the copier.

Correct Answer : The copier has a business purpose, and deductions for recurring expenditures can be taken, as a cash basis taxpayer pays them. However, a cash basis taxpayer cannot deduct capital expenditures, in full, in the year they are paid. Capital expenditures must be capitalized and allocated to the periods that benefit from the expenditure. A capital expenditure is defined as any expenditure that has a benefit that extends substantially beyond the end of the

tax year. Because the $4,800 fixed fee benefits 2019, 2020, and 2021, it must be capitalized and amortized as the benefit of the photocopier is received. Milton can deduct $400 [($4,800/24) × 2 months] of the fixed fee in 2019. In addition, it can deduct the $450 copy fee that is paid in December. The $560 copy fee is not deductible until 2020, the year of payment.

28 : Kiki fell asleep one night while driving home from work and severely damaged her car. Repairs to the car cost $4,600. Her insurance company reimbursed her $4,100 for the repairs. Has Kiki realized a loss? Under what conditions can she deduct the loss?

Correct Answer : Kiki has realized a loss of $500 ($4,600 – $4,100) from the accident—a change in her wealth has occurred in an arm's-length transaction. However, all realized losses are not recognized for tax purposes. To deduct the loss, the car must have a business purpose. If the car is used solely for business purposes, Kiki can deduct the $500 loss. However, if the car is used for personal purposes, she may not take a deduction.

29 : Kiki fell asleep one night while driving home from work and severely damaged her car. Repairs to the car cost $4,600. Her insurance company reimbursed her $4,100 for the repairs. Has Kiki realized a loss? Under what conditions can she deduct the loss?

Correct Answer : a.The business purpose concept for the 60% and the lack of the same for the 40% personal usage. The legislative grace concept is necessary for any deduction. b.The all-inclusive income concept applies as Teresa provided a service and was compensated with something of value (cash-equivalent approach). The realization concept states that Teresa must recognize the income once the exchange is complete. c.According to the realization concept, no income is recognized until realization (sale of the stock) occurs. d.The realization concept provides for the gain recognition on the sale of the bonds. The all-inclusive-income concept provides for including income from the sale. The capital recovery concept limits the gain to the amount realized in excess of the cost of the bonds. The legislative grace concept provides for the exclusion from gross income of the interest from municipal bonds. e.Under the claim-of-right doctrine, income is realized when it is received without any clear obligation to repay the income. The fact that Anita may have to repay the advance does not negate her claim of right or her ability to control the $5,000 advance. If Anita is required to make a repayment in the future, she would be allowed a deduction at that time. Anita has a realized income of $5,000 when she receives the advance royalty.

30 : Kiki fell asleep one night while driving home from work and severely damaged her car. Repairs to the car cost $4,600. Her insurance company reimbursed her $4,100 for the repairs. Has Kiki realized a loss? Under what conditions can she deduct the loss?

Correct Answer : a.The receipt of the stock dividend does not result in a realization of income because Dorine's wealth has not increased. Similarly, the increase in market value on December 31 has not been realized through an arm's-length transaction with another party. The income from the sale of the stock constitutes a realization and is subject to tax under the all-inclusive income concept. The capital recovery concept provides for the recovery of her $11,000 investment against the $13,500 realization, resulting in a $2,500 gain on the sale. b.As Steven and Moray are related parties, they are not deemed to transact at arm's-length. Thus, the resulting loss does not result from an arm's-length transaction, and it is not recognized for tax purposes. c.Danielle's costs are deductible because they have a business purpose and are related to her trade or business. Her daughter's costs are unrelated to any business purpose and are nondeductible personal expenses. d.Earl is in constructive receipt of the bonus in 2019. The bonus is available for his use at that time, as evidenced by his ability to control the timing of the payment.

31 : Kiki fell asleep one night while driving home from work and severely damaged her car. Repairs to the car cost $4,600. Her insurance company reimbursed her $4,100 for the repairs. Has Kiki realized a loss? Under what conditions can she deduct the loss?

Correct Answer : a.Under the arm's-length transaction concept, only those transactions that are made at arm's-length are given their intended tax effect. Related parties are deemed not to transact at arm's-length. Because Leon and Margie are related parties, the transaction is not made at arm's length and the loss is disallowed. b.The legislative grace concept states deductions that Congress has specifically allowed. Only those expenses that have a business purpose are generally allowed as deductions. The interest on the van has a business purpose and is deductible. The personal automobile interest does not have a business purpose and is not deductible. The entity concept requires Jorge to keep his business and personal transactions separate for reporting purposes. c.All taxpayers, both cash and accrual basis, must recognize rent in the period that it is received. The wherewithal-to-pay concept states that the tax should be paid in the period in which the taxpayer has the resources to pay the tax. This requires accrual basis taxpayers to recognize prepaid income in the period of receipt. d.The legislative grace concept requires Congress to approve any form of tax relief. To be deductible, an expense or loss must have a business purpose. The stock is an investment asset, and the loss derives from a business purpose. The furniture is a personal use asset that does not have a business purpose. The capital recovery concept states that taxpayers are allowed to recover their investment before any income is recognized. Todd's loss on the stock represents his unrecovered capital investment. e.The ability-to-pay concept requires the tax to be based on the taxpayer's ability to pay the tax. Because Hasid supports four people on his income, his tax should be less than Marsha's (who has the same income and supports only herself). This is accomplished through progressive tax rate schedules for varying classes of taxpayers, different standard deduction amounts, and the allowance of tax credits for dependent children.

32 : Sidney owns unimproved land in Chicago, Illinois. In 2009, Sidney leased the land for 10 years to the U-Store-It Storage Company. The lease terms require annual lease payments of $12,000 that are paid at the beginning of each year. U-Store-It immediately constructed a storage facility on the leased land. The storage facility building was worth $105,000 when it was constructed. In 2019, the lease expires and legal ownership of the building reverts to Sidney. The building is worth $125,000 when the lease expires. Sidney has reported the lease income annually but will not report any income from the improvements the lessee made to the building. Explain in terms of the income tax concepts why Sidney has reported his income in this manner.

Correct Answer : Sidney has income each year from the lease payments received according to the all-inclusive income concept. Sidney will not have to recognize the value of the improvements until he sells the building as prescribed by the realization concept and the wherewithal-to-pay concept. Sidney's basis in the building is not increased by the amount of the improvements since he neither paid for them nor recognized any income from the improvements.

33 : Sidney owns unimproved land in Chicago, Illinois. In 2009, Sidney leased the land for 10 years to the U-Store-It Storage Company. The lease terms require annual lease payments of $12,000 that are paid at the beginning of each year. U-Store-It immediately constructed a storage facility on the leased land. The storage facility building was worth $105,000 when it was constructed. In 2019, the lease expires and legal ownership of the building reverts to Sidney. The building is worth $125,000 when the lease expires. Sidney has reported the lease income annually but will not report any income from the improvements the lessee made to the building. Explain in terms of the income tax concepts why Sidney has reported his income in this manner.

Correct Answer : a.Under the assignment-of-income doctrine, income is taxed to the entity that earns the income or owns the property producing the income. Because Amelia owns the royalty interest, she cannot avoid taxation on the royalties by having them paid to her son. b.The entity concept requires taxpayers to correctly identify expenses according to their use by the taxpayer.

The business purpose concept allows the deduction of expenses that are profit motivated. Personal expenditures are generally not deductible. Mark can deduct the cost of the wood used in his barbecue business because it has a business purpose. The wood used in his personal fireplace is a nondeductible personal expense. c.Only arm's-length transactions are given their intended income tax effect. A transaction that is not made at arm's length is generally disregarded. Related parties do not transact at arm's length. Andre and Woods Corporation are related parties (more than 50% ownership by Andre), and therefore, the corporation is not allowed to deduct the loss on the sale. d.The realization concept requires income to be realized in an arm's-length transaction before it is recognized. The $700 increase in the market value of the stock at the end of 2018 has not been realized and is not included in Constance's 2018 gross income. When the stock is sold, a gain is realized. Under the capital recovery concept, Constance is allowed to recover her $4,500 basis in the stock before she has any income (i.e., the full $5,800 selling price is not taxable). e.Cash basis taxpayers recognize income when it is actually or constructively received. Income is constructively received when the taxpayer has the ability to control the income. Barney is in constructive receipt of the $1,000 because it was made available to him on December 31, 2019. His ability to direct the receipt of the payment to the next year indicates that he has control of the income.

34 : Sidney owns unimproved land in Chicago, Illinois. In 2009, Sidney leased the land for 10 years to the U-Store-It Storage Company. The lease terms require annual lease payments of $12,000 that are paid at the beginning of each year. U-Store-It immediately constructed a storage facility on the leased land. The storage facility building was worth $105,000 when it was constructed. In 2019, the lease expires and legal ownership of the building reverts to Sidney. The building is worth $125,000 when the lease expires. Sidney has reported the lease income annually but will not report any income from the improvements the lessee made to the building. Explain in terms of the income tax concepts why Sidney has reported his income in this manner.

Correct Answer : a.Atlas Construction’s accounting method (accrual basis) requires it to recognize income as it is earned. Because the $12,000 was billed (and not corrected) before the end of the year, the $12,000 must be included in the 2019 income. Under the annual accounting period concept, each tax year stands separate and apart from all other tax years. Events of each year are accounted for separately and prior year's returns are not amended based on new information (only actual errors are corrected). In this case, the amount included in gross income of 2019 was correct at the end of the year. The subsequent adjustment is taken up in 2020 as a deduction to adjust the overreporting of the 2019 income. b.The all-inclusive income concept requires all increases in wealth to be included in income, unless specifically excluded. There is no exclusion from income for bribes or kickbacks. Katie has a claim of right to the $5,000 when it is received. There is no definitive obligation to repay the $5,000—it will only be repaid if discovered. c.The capital recovery concept allows Little to recover the $40,000 cost of its investment in the machinery. The $14,000 in depreciation is a capital recovery that makes the adjusted basis of the machinery to be $26,000 as on the date of sale. The sale results in a loss of $6,000 ($20,000 – $26,000). The $6,000 loss is unrecovered capital investment. Because Little is a trade or business, the business purpose concept allows the deduction of the loss. d.The annual accounting period concept requires the events of each year to stand separate and apart from other years. Because Raptor deducted the $500 in 2018, the $500 receipt in 2019 must be included in the 2019 income under the tax benefit rule. The prior year's deduction is not adjusted directly.

MULTIPLE CHOICE

35 : When some items of income are omitted from the tax base because the time and effort for taxpayers to accumulate the information necessary to implement the concept is more than the benefit of using it, it is an application of the

A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : B

36 : Sam coaches a little league baseball team. He makes 15 copies of the team's schedule to give to the players from his employer's copy machine. The cost of the copies is not taxed to Sam because of the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : B

37 : The rule that restricts self-dealing through the related party provisions is the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : C

38 : Susan purchased a lot for investment purposes. She paid $10,000 for the lot. Three years later, she sold the lot to her daughter for $8,000. Susan cannot deduct the loss because of the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : C

39 : Withholding of taxes from the taxpayers' wages and quarterly estimated tax payments are implemented by the
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : E

40 : Thomas had $8,500 withheld from his paycheck. As he has a large amount of interest and dividends, he is required to make quarterly estimated tax payments because of the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.

E : pay-as-you-go concept.

Correct Answer : E

41 : Jerome, a self-employed attorney, is scrambling around to recalculate his estimated income tax liability for the current year because he needs to mail his third quarter estimated tax payment tomorrow (September 15, current year). Which concept is causing Jerome to scramble?
A : Administrative convenience concept
B : Ability-to-pay concept
C : Arm's-length transaction concept
D : Pay-as-you-go concept
E : Assignment of income doctrine

Correct Answer : D

42 : Failure to make the required estimated tax payments will result in a penalty for underpayment of estimated taxes. This penalty exists because of which of the following concepts, constructs, or doctrines?
A : Pay-as-you-go concept
B : Tax benefit rule
C : Substance-over-form doctrine
D : Administrative convenience concept
E : Ability-to-pay concept.

Correct Answer : A

43 : The allowance of deductions in calculating taxable income and the use of a progressive tax rate structure are a direct application of the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : pay-as-you-go concept.

Correct Answer : A

44 : Victor receives a $2,000 tax credit for childcare. The credit was earned because of his daycare expenditures for his son while he works at office. Which concept explains the reason for receiving this tax credit?
A : Ability-to-pay concept
B : Administrative convenience concept
C : Arm's-length transaction concept
D : Capital recovery concept
E : Pay-as-you-go concept

Correct Answer : A

45 : Victor receives a $2,000 tax credit for childcare. The credit was earned because of his daycare expenditures for his son while he works at office. Which concept explains the reason for receiving this tax credit?
A : Only statement II is correct.
B : Only statements I, III, and IV are correct.
C : Only statement IV is correct.
D : Only statements I and III are correct.
E : All statements are correct.

Correct Answer : E

46 : Victor receives a $2,000 tax credit for childcare. The credit was earned because of his daycare expenditures for his son while he works at office. Which concept explains the reason for receiving this tax credit?
A : Only statement I is correct.
B : Only statement II is correct.
C : Statements II and III are correct.
D : All statements are correct.
E : None of the statements are correct.

Correct Answer : E

47 : Some discontented taxpayers have suggested that complexity can be removed from the income tax structure by applying a flat tax rate to the gross income of all taxpayers. Which of the following concepts is violated by this approach?
A : Ability-to-pay concept
B : All-inclusive income concept
C : Entity concept
D : Pay-as-you-go concept
E : Wherewithal-to-pay concept

Correct Answer : A

48 : A taxpayer is allowed to deduct a standard deduction in lieu of accumulating the information necessary to deduct the actual allowable deductions. This treatment is an application of the:
A : administrative convenience concept.
B : wherewithal-to-pay concept.
C : annual accounting period concept.
D : capital recovery concept.
E : business purpose concept.

Correct Answer : A

49 : Sanchez Company allows its employees to make personal copies from the company copy machines without any charges. Which concept or doctrine helps to explain the reason why the benefit received is not taxable to Sanchez employees?
A : Administrative convenience concept
B : Assignment of income doctrine
C : Arm's-length transaction concept
D : Ability-to-pay concept
E : Pay-as-you-go concept

Correct Answer : A

50 : Which of the following concepts/doctrines/rules state(s) that items may be omitted from the tax base whenever the cost of implementing a concept exceeds the benefit of using it?
A : Ability-to-pay concept
B : Administrative convenience concept
C : Arm's-length transaction concept
D : Substance-over-form doctrine
E : Tax benefit rule

Correct Answer : B

51 : Which of the following concepts/doctrines/rules state(s) that items may be omitted from the tax base whenever the cost of implementing a concept exceeds the benefit of using it?
A : Only statement I is correct.
B : Only statement II is correct.
C : Statements III and IV are correct.
D : Statements I and III are correct.
E : All statements are correct.

Correct Answer : A

52 : Which of the following is a taxable entity?
A : Sole proprietorship
B : Partnership
C : S corporation
D : C corporation

Correct Answer : D

53 : Which of the following is a taxable entity?
A : Statements I and II are correct.
B : Statements II and III are correct.
C : Only statement IV is correct.
D : Statements I, III, and IV are correct.
E : Statements I, II, and IV are correct.

Correct Answer : E

54 : Which of the following is a taxable entity?
A : Statements I and II are correct.
B : Statements II and III are correct.
C : Only statement IV is correct.
D : Statements I, II, and III are correct.
E : Statements I, II, and IV are correct.

Correct Answer : A

55 : Which of the following is a taxable entity?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

56 : Which of the following is a taxable entity?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : Neither statement is correct.

Correct Answer : A

57 : In the current year, Darlene purchases a 20% interest in Grant Partnership (GP) for $10,000. During the current year, GP has a taxable income of $80,000 and Darlene withdraws $5,000 of cash from the partnership. Darlene's income to be reported from her investment in GP and her basis in GP at the end of the year is:Income Basis
A : $16,000 $21,000
B : $5,000 $26,000
C : $16,000 $10,000
D : $5,000 $21,000

Correct Answer : A

58 : Will is a partner in Oil Exploration Limited Partnership. For the current year, the partnership reports a net income of $130,000. Will's share of the income is $1,300. Will reports that amount in his gross income. The partnership pays no income tax on its earnings. Which concept or doctrine applies here?
A : Annual accounting period concept
B : Arm's-length transaction concept
C : Assignment-of-income doctrine
D : Entity concept
E : Substance-over-form doctrine

Correct Answer : D

59 : Will is a partner in Oil Exploration Limited Partnership. For the current year, the partnership reports a net income of $130,000. Will's share of the income is $1,300. Will reports that amount in his gross income. The partnership pays no income tax on its earnings. Which concept or doctrine applies here?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct
D : None of the statements are correct.

Correct Answer : A

60 : Will is a partner in Oil Exploration Limited Partnership. For the current year, the partnership reports a net income of $130,000. Will's share of the income is $1,300. Will reports that amount in his gross income. The partnership pays no income tax on its earnings. Which concept or doctrine applies here?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : D

61 : Rachel paid $1,000 for supplies last year. In the current year, the vendor finds a $200 mistake in the invoice and refunds the overpayment to Rachel. Which of the following doctrines/concepts/rules is the least helpful to determine how the current year transaction should be reported for tax purposes?
A : Annual accounting period concept
B : Tax benefit rule
C : Claim-of-right doctrine
D : Assignment-of-income doctrine

E : All-inclusive income concept

Correct Answer : D

62 : Isabel is a self-employed electrician. All cash payments she receives from customers are deposited into a bank account held in the name of her son. Isabel does not use the funds. Therefore, she thinks she does not need to include the cash receipts in her gross income. Which concept or doctrine applies to this situation?
A : Pay-as-you-go concept
B : Assignment-of-income doctrine
C : Annual accounting period concept
D : Substance-over-form doctrine
E : Arms-length transaction concept

Correct Answer : B

63 : Isabel is a self-employed electrician. All cash payments she receives from customers are deposited into a bank account held in the name of her son. Isabel does not use the funds. Therefore, she thinks she does not need to include the cash receipts in her gross income. Which concept or doctrine applies to this situation?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : A

64 : Isabel is a self-employed electrician. All cash payments she receives from customers are deposited into a bank account held in the name of her son. Isabel does not use the funds. Therefore, she thinks she does not need to include the cash receipts in her gross income. Which concept or doctrine applies to this situation?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : C

65 : On June 1, Don receives a rental house from his uncle Sidney as a graduation present. The monthly rental on the house is $1,000. On June 25, the tenant pays uncle Sidney the $1,000 rent payment for June by mistake. Which of the following concepts, constructs, or doctrines is the most relevant in determining the tax treatment of the $1,000 rental payment?
A : Capital recovery concept
B : Assignment-of-income doctrine
C : Constructive receipt doctrine
D : Wherewithal-to-pay concept
E : Substance-over-form doctrine

Correct Answer : B

66 : On June 1, Don receives a rental house from his uncle Sidney as a graduation present. The monthly rental on the house is $1,000. On June 25, the tenant pays uncle Sidney the $1,000 rent payment for June by mistake. Which of the following concepts, constructs, or doctrines is the most relevant in determining the tax treatment of the $1,000 rental payment?
A : Only statement I is correct.
B : Only statement II is correct.

C : Statements I and III are correct.
D : Statements I and II are correct.
E : Statements III and IV are correct.

Correct Answer : E

67 : On June 1, Don receives a rental house from his uncle Sidney as a graduation present. The monthly rental on the house is $1,000. On June 25, the tenant pays uncle Sidney the $1,000 rent payment for June by mistake. Which of the following concepts, constructs, or doctrines is the most relevant in determining the tax treatment of the $1,000 rental payment?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : C

68 : On June 1, Don receives a rental house from his uncle Sidney as a graduation present. The monthly rental on the house is $1,000. On June 25, the tenant pays uncle Sidney the $1,000 rent payment for June by mistake. Which of the following concepts, constructs, or doctrines is the most relevant in determining the tax treatment of the $1,000 rental payment?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : D

69 : Joanne, a single individual, has $2,000 in state taxes withheld from her salary in 2019. Her total itemized deductions are $12,400. She claims the $2,000 as an itemized deduction on her 2019 tax return. In 2020, she receives a state income tax refund of $700. Under the tax benefit rule, she has to report income in 2020 of:
A : $2,000.
B : $700.
C : $200.
D : $-0-.
E : $-0-, but she must file an amended 2019 tax return and reduce her itemized deductions by $700.

Correct Answer : C

70 : Margarita, a single individual, has $2,000 in state taxes withheld from her salary in 2019. Her total itemized deductions are $13,500. She claims the $2,000 as an itemized deduction on her 2019 tax return. In 2020, she receives a state income tax refund of $400. Under the tax benefit rule, she has to report income in 2020 of:
A : $2,000.
B : $400.
C : $200.
D : $-0-.
E : $-0-, but she must file an amended 2019 tax return and reduce her itemized deductions by $400.

Correct Answer : B

71 : Margarita, a single individual, has $2,000 in state taxes withheld from her salary in 2019. Her total itemized deductions are $13,500. She claims the $2,000 as an itemized deduction on her 2019 tax return. In 2020, she

receives a state income tax refund of $400. Under the tax benefit rule, she has to report income in 2020 of:
A : Only statement I is correct.
B : Statements II and III are correct.
C : Statements III and IV are correct.
D : Only statement IV is correct.
E : Statements II, III, and IV are correct.

Correct Answer : D

72 : Fay "hires" her four-year-old son as the office manager for her real estate firm. She deducts $20,000 annual salary paid to her son as a business expense. The IRS disallows the deduction upon examination of Fay's tax return. Which of the following concepts/doctrines supports the IRS position?
A : All-inclusive income concept
B : Claim-of-right doctrine
C : Entity concept
D : Realization concept
E : Substance-over-form doctrine

Correct Answer : E

73 : Fay "hires" her four-year-old son as the office manager for her real estate firm. She deducts $20,000 annual salary paid to her son as a business expense. The IRS disallows the deduction upon examination of Fay's tax return. Which of the following concepts/doctrines supports the IRS position?
A : Only statement II is correct.
B : Statements I, II, and III are correct.
C : Statements I, II, and IV are correct.
D : Statements I and IV are correct.
E : All statements are correct.

Correct Answer : C

74 : Fay "hires" her four-year-old son as the office manager for her real estate firm. She deducts $20,000 annual salary paid to her son as a business expense. The IRS disallows the deduction upon examination of Fay's tax return. Which of the following concepts/doctrines supports the IRS position?
A : Statements I and II are correct.
B : Only statement I is correct.
C : Only statement II is correct.
D : Statements I, II, and III are correct.
E : Statements I, II, III, and IV are correct.

Correct Answer : D

75 : Carter sold 100 shares of Mitsui, Inc., for $8,000, but he only recognized $2,000 as income because the original purchase price was $6,000. This is because of the:
A : ability-to-pay concept.
B : all-inclusive income concept.
C : arm’s-length transaction concept.
D : capital recovery concept.
E : legislative grace concept.

Correct Answer : D

76 : No income is taxed until the taxpayer is allowed the return of the original investment because of the:
A : ability-to-pay concept.
B : administrative convenience concept.
C : arm's-length transaction concept.
D : capital recovery concept.
E : business purpose concept

Correct Answer : D

77 : No income is taxed until the taxpayer is allowed the return of the original investment because of the:
A : Only statement I is correct.
B : Statements II and IV are correct.
C : Only statement II is correct.
D : Statements I and IV are correct.
E : Only statement IV is correct.

Correct Answer : D

78 : No income is taxed until the taxpayer is allowed the return of the original investment because of the:
A : Only statement III is correct.
B : Statements III and IV are correct.
C : Statements I and III are correct.
D : Statements II and IV are correct.
E : Only statement I is correct.

Correct Answer : D

79 : No income is taxed until the taxpayer is allowed the return of the original investment because of the:
A : Only statement I is correct.
B : Only statement IV is correct.
C : Statements III and IV are correct.
D : Statements I, III, and IV are correct.
E : All statements are correct.

Correct Answer : B

80 : Ted sells 200 shares of common stock for $2,000. Ted purchased the stock for $500 several years ago. Ted's realized gain from the sale is only $1,500. Which of the following supports this treatment?
A : Annual accounting period concept
B : Capital recovery concept
C : Wherewithal-to-pay concept
D : Claim-of-right doctrine
E : Constructive receipt doctrine

Correct Answer : B

81 : Ted sells 200 shares of common stock for $2,000. Ted purchased the stock for $500 several years ago. Ted's realized gain from the sale is only $1,500. Which of the following supports this treatment?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.

D : None of the statements are correct.

Correct Answer : C

82 : Ted sells 200 shares of common stock for $2,000. Ted purchased the stock for $500 several years ago. Ted's realized gain from the sale is only $1,500. Which of the following supports this treatment?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

83 : John purchases State of Oklahoma general-purpose bonds at a cost of $3,400 in 2017. He receives $210 interest on the bonds in 2017, 2018, and 2019. In 2019, he sells the bonds for $3,800. How much income does John recognize in each of the following years?2016 2017 2018
A : -0- -0- -0-
B : -0- -0- 400
C : 210 210 210
D : 210 210 570

Correct Answer : B

84 : John purchases State of Oklahoma general-purpose bonds at a cost of $3,400 in 2017. He receives $210 interest on the bonds in 2017, 2018, and 2019. In 2019, he sells the bonds for $3,800. How much income does John recognize in each of the following years?2016 2017 2018
A : Statements II and III are correct.
B : Statements I and IV are correct.
C : Statements II, III, and IV are correct.
D : Statements II and IV are correct.
E : Only statement I is correct.

Correct Answer : A

85 : John purchases State of Oklahoma general-purpose bonds at a cost of $3,400 in 2017. He receives $210 interest on the bonds in 2017, 2018, and 2019. In 2019, he sells the bonds for $3,800. How much income does John recognize in each of the following years?2016 2017 2018
A : Statements I and IV are correct.
B : Statements I, II, and III are correct.
C : Statements I and III are correct.
D : Statements II and IV are correct.
E : Only statement IV is correct.

Correct Answer : C

86 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : all-inclusive income concept.
B : capital recovery concept.
C : realization concept.
D : claim-of-right doctrine.
E : ability-to-pay concept.

Correct Answer : C

87 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Statements I and II are correct.
B : Statements II and III are correct.
C : Only statement IV is correct.
D : Statements I and IV are correct.
E : Statements I, III, and IV are correct.

Correct Answer : D

88 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Statements I and II are correct.
B : Statements I and III are correct.
C : Statements II and IV are correct.
D : Statements I, II, and III are correct.
E : Statements I, III, and IV are correct.

Correct Answer : B

89 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Only statement I is correct.
B : Only statement IV is correct.
C : Statements I, III, and IV are correct.
D : Statements I, III, and V are correct.
E : Statements II, III, and IV are correct.

Correct Answer : C

90 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

91 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : D

92 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : A

93 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Statements I and IV are correct.
B : Statements II and III are correct.
C : Statements II and IV are correct.
D : Statements I and III are correct.
E : Statements II, III, and IV are correct.

Correct Answer : A

94 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Statements I and IV are correct.
B : Statements II and III are correct.
C : Only statement III is correct.
D : Statements I, II, and III are correct.
E : Statements I, II, III, and IV are correct.

Correct Answer : B

95 : Hank bought a small ranch for $300,000 several years ago. In the current year, oil is discovered on a neighboring property. The county assessor re-valued Hank's property at $1,550,000. Hank does not recognize any income because of the:
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : C

96 : On December 20, 2019, Thomas, the CEO of Lifetime Corporation issues a $10,000 bonus check to Ana Maria. Thomas asks Ana Maria to hold the check until at least January 4, 2020, when there will be enough deposits to cover the check. Ana Maria is not required to recognize the $10,000 in 2019 because of the:
A : claim-of-right doctrine.
B : substance-over-form doctrine.
C : entity concept.
D : constructive receipt doctrine.
E : arms-length transaction concept.

Correct Answer : A

97 : When Kerri filed her 2019 tax return on April 15, 2020, she did not include a $2,000 bonus received from her employer on January 10, 2020, relating to her work performance during 2019. Which concept, construct, or doctrine supports Kerri's actions?
A : Arms-length transaction concept
B : Substance-over-form doctrine
C : Constructive receipt doctrine
D : Claim-of-right doctrine
E : Entity concept

Correct Answer : C

98 : Mario is an employee of Flores Company. The company regularly pays salary to its employees by direct deposit on or before the last day of each month. Mario's regular paycheck is deposited on December 31, 2019, but Mario was on vacation and didn't return until January 15, 2020. The gross amount of the check is included in Mario's 2019 income. Which of the following concepts or doctrines best explains this treatment?
A : Wherewithal-to-pay concept
B : All-inclusive income concept
C : Capital recovery concept
D : Claim-of-right doctrine
E : Constructive receipt doctrine

Correct Answer : E

99 : Sandra directed her employer to withhold $500 of her wages each month for deposit to her mother's checking account. Which of the following concepts, constructs, or doctrines is the least helpful in determining how Sandra should report the arrangement for tax purposes?
A : Assignment-of-income doctrine
B : Claim-of-right doctrine
C : All-inclusive income concept
D : Ability-to-pay concept
E : Constructive receipt doctrine

Correct Answer : D

100 : Sandra directed her employer to withhold $500 of her wages each month for deposit to her mother's checking account. Which of the following concepts, constructs, or doctrines is the least helpful in determining how Sandra should report the arrangement for tax purposes?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

101 : Sandra directed her employer to withhold $500 of her wages each month for deposit to her mother's checking account. Which of the following concepts, constructs, or doctrines is the least helpful in determining how Sandra should report the arrangement for tax purposes?
A : All statements are correct.
B : Statements II and III are correct.
C : Statements I and II are correct.

D : Only statement II is correct.
E : Only statement III is correct.

Correct Answer : D

102 : Sandra directed her employer to withhold $500 of her wages each month for deposit to her mother's checking account. Which of the following concepts, constructs, or doctrines is the least helpful in determining how Sandra should report the arrangement for tax purposes?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : D

103 : Arnold sells a parcel of investment real estate to Oswald for $600,000 in 2019. Arnold will receive $200,000 annually plus interest at 8% from 2020 through 2022. Arnold will recognize no gross income on this sale in 2019. Which of the following determines this treatment?
A : Administrative convenience concept
B : All-Inclusive income concept
C : Ability-to-pay concept
D : Claim-of-right doctrine
E : Wherewithal-to-pay concept

Correct Answer : E

104 : Silvia is a single individual who has an income of $80,000. Todd is a single individual who has an income of $35,000. Neither of them itemizes their deductions. Both taxpayers will take a standard deduction of $12,200 in 2019. The concept that allows both Silvia and Todd to take this deduction is the:
A : capital recovery concept.
B : administrative convenience concept.
C : entity concept.
D : wherewithal-to-pay concept.
E : pay-as-you-go concept.

Correct Answer : B

105 : Silvia is a single individual who has an income of $80,000. Todd is a single individual who has an income of $35,000. Neither of them itemizes their deductions. Both taxpayers will take a standard deduction of $12,200 in 2019. The concept that allows both Silvia and Todd to take this deduction is the:
A : Only statement II is correct.
B : Only statement III is correct.
C : Statements I and II are correct.
D : Statements II and III are correct.
E : All statements are correct.

Correct Answer : B

106 : Silvia is a single individual who has an income of $80,000. Todd is a single individual who has an income of $35,000. Neither of them itemizes their deductions. Both taxpayers will take a standard deduction of $12,200 in 2019. The concept that allows both Silvia and Todd to take this deduction is the:
A : Only statement I is correct.
B : Only statement II is correct.

C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : C

107 : A corporation is allowed to deduct all of its ordinary and necessary business expenses. Which of the following concepts is least helpful in determining this treatment?
A : All-inclusive income concept
B : Entity concept
C : Capital recovery concept
D : Legislative grace concept
E : Business purpose concept

Correct Answer : A

108 : A corporation is allowed to deduct all of its ordinary and necessary business expenses. Which of the following concepts is least helpful in determining this treatment?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

109 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Arms-length transaction concept
B : Substance-over-form doctrine
C : Assignment-of-income doctrine
D : Business purpose concept
E : Entity concept

Correct Answer : E

110 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Statements I and II are correct.
B : Statements II, III, and IV are correct
C : Statements I, II, and III are correct.
D : Only statement II is correct.
E : All statements are correct.

Correct Answer : E

111 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : C

112 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : A

113 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement II is correct.
C : Statements I and II are correct.
D : Statements I, II, and III are correct.
E : All statements are correct.

Correct Answer : D

114 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : A

115 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement IV is correct.
C : Statements I and IV are correct.
D : Statements I, II, and IV are correct.
E : All statements are correct.

Correct Answer : C

116 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Only statement I is correct.
B : Only statement II is correct.
C : Only statement III is correct.
D : Statements I and II are correct.
E : All statements are correct.

Correct Answer : E

117 : Jane owns 100% of the stock of Lacy Corporation. Jane's son, Lee, is employed by Lacy Corporation as a consultant. Which of the following concepts or doctrines is least helpful in determining the tax consequences of any payments Lacy makes to Lee?
A : Statements I and IV are correct.
B : Statements I, II, and III are correct.
C : Statements I and II are correct.
D : Statements I, II, III, and IV are correct.
E : Statements III and IV are correct.

Correct Answer : C

118 : Laurie's Lawn Service, Inc., purchases a heavy-duty tri-cut lawn mower on March 17, 2019, for $5,500. Under a special election, Laurie's expenses the $5,500 cost of the lawn mower in 2019. In July, a tire on the lawn mower is repaired at a cost of $450. Maintenance costs on the lawn mower for 2019 total $175. What is Laurie's basis in the lawn mower at the end of 2019?
A : $- 0 -
B : $450
C : $5,500
D : $5,950
E : $6,125

Correct Answer : A

119 : Monica's Lawn Service, Inc., purchases a heavy-duty tri-cut lawn mower on March 17, 2019, for $4,500. The depreciation on the lawn mower in 2019 is $500. In July, a tire on the lawn mower is repaired at a cost of $650. Maintenance costs on the lawn mower for 2019 total $175. What is Monica's basis in the lawn mower at the end of 2019?
A : $650
B : $4,000
C : $4,650
D : $5,150
E : $5,325

Correct Answer : B

120 : Monterey Developers purchases 10 acres of land for $15,000 on January 14, 2019. It also pays $2,000 in legal and other fees related to the purchase. Monterey spends $3,000 for legal fees, permit licenses, and city franchise fees to subdivide the land into 10 one-acre plots. Sewer and utility line easements cost an additional $5,000. Interest paid on the loan that financed the purchase is $1,200 for 2019. Monterey also pays $800 in property taxes in 2019. What is Monterey’s adjusted basis in the land at the end of 2019?
A : $17,000
B : $25,000
C : $25,800
D : $26,200
E : $27,000

Correct Answer : B

121 : James purchased land costing $22,000 in 2018. He paid $2,000 in legal fees and other expenses to complete the purchase. In 2019, James spends $24,000 subdividing the land and running utilities to the property. Interest paid on the loan used to finance the purchase and subdividing totaled $1,750 in 2018 and $3,200 in 2019. James paid

$350 of property taxes in 2018 and $750 of property taxes in 2019. What is James's basis in the land at the end of 2019?
A : $24,000
B : $46,000
C : $48,000
D : $50,950
E : $52,050

Correct Answer : C

122 : Drew Corporation purchased machinery costing $825,000 in 2018. Drew paid $5,000 for installation and testing of the machinery. Under a special election, Drew expensed $500,000 of the cost of the machinery in 2018. Drew also deducted depreciation on the machinery of $46,443 in 2018 and $79,593 in 2019. Drew's repair and maintenance costs on the machinery were $10,200 in 2018 and $13,300 in 2019. What is Drew Corporation's adjusted basis in the machinery at the end of 2019?
A : $175,468
B : $198,964
C : $203,964
D : $325,000
E : $698,964

Correct Answer : C

123 : Drew Corporation purchased machinery costing $825,000 in 2018. Drew paid $5,000 for installation and testing of the machinery. Under a special election, Drew expensed $500,000 of the cost of the machinery in 2018. Drew also deducted depreciation on the machinery of $46,443 in 2018 and $79,593 in 2019. Drew's repair and maintenance costs on the machinery were $10,200 in 2018 and $13,300 in 2019. What is Drew Corporation's adjusted basis in the machinery at the end of 2019?
A : Statements I and II are correct.
B : Statements II and III are correct.
C : Statements I and IV are correct.
D : Statements II, III, and IV are correct.
E : Only statement IV is correct.

Correct Answer : B

124 : Drew Corporation purchased machinery costing $825,000 in 2018. Drew paid $5,000 for installation and testing of the machinery. Under a special election, Drew expensed $500,000 of the cost of the machinery in 2018. Drew also deducted depreciation on the machinery of $46,443 in 2018 and $79,593 in 2019. Drew's repair and maintenance costs on the machinery were $10,200 in 2018 and $13,300 in 2019. What is Drew Corporation's adjusted basis in the machinery at the end of 2019?
A : Only statement I is correct.
B : Only statement II is correct.
C : Both statements are correct.
D : None of the statements are correct.

Correct Answer : B

125 : Drew Corporation purchased machinery costing $825,000 in 2018. Drew paid $5,000 for installation and testing of the machinery. Under a special election, Drew expensed $500,000 of the cost of the machinery in 2018. Drew also deducted depreciation on the machinery of $46,443 in 2018 and $79,593 in 2019. Drew's repair and maintenance costs on the machinery were $10,200 in 2018 and $13,300 in 2019. What is Drew Corporation's adjusted basis in the machinery at the end of 2019?
A : Statements I and III are correct.

B : Statements I, III, and IV are correct.
C : Statements II and III are correct.
D : Only statement IV is correct.
E : All statements are correct.

Correct Answer : B

MATCHING

126 : Match each term with the correct statement below.

A : Annual accounting period concept	A : Allocates income, losses, and deductions to its owners to include in their personal returns
B : Assignment-of-income doctrine	B : Each tax unit must keep separate records and report the results of its operations separate and apart from other tax units.
C : Calendar year	C : Income earned from services must be taxed to the taxpayer rendering the service, and income from property must be taxed to the owner of the property.
D : Conduit entity	D : Any tax year that ends on the last day of a month other than December
E : Entity concept	E : All taxpayers must report the results of their operations on an annual basis.
F : Fiscal year	F : A tax year that ends on December 31
G : Taxable entity	G : An entity that is liable for the payment of tax

Correct Answer :
A : E

B : C

C : F

D : A

E : B

F : D

G : G

127 : Match each statement with the correct term below.

A : Accrual method	A : A taxpayer reports income when received in cash or its equivalent and takes deductions when they are paid.
B : All-inclusive income concept	B : A deduction taken in a prior year that is recovered in a subsequent year is reported as income in the year it is recovered, to the extent that the deduction reduced taxable income.
C : Capital recovery concept	C : A taxpayer reports income as earned and

	deductions as incurred.
D : Cash method	D : The result of an arm’s-length transaction
E : Legislative grace concept	E : Exclusions and deductions are allowed as a result of a specific act of Congress and that must be strictly applied and interpreted.
F : Realization concept	F : The taxability of a transaction is determined by the reality of the transaction, rather than some contrived appearance.
G : Recognition	G : The reporting of an item of income or expense on a tax return
H : Related party	H : No income is realized until the amount invested has been recovered.
I : Substance-over-form doctrine	I : All income received is taxable unless some specific provision of the tax law allows to exclude the item from taxation.
J : Tax benefit rule	J : These taxpayers are not deemed to transact at arm’s-length.

Correct Answer :
A : C

B : I

C : H

D : A

E : E

F : D

G : G

H : J

I : F

J : B

128 : Match each statement with the correct term below.

A : Administrative convenience concept	A : Income is subject to tax when it is received without restrictions as to its disposition.
B : Claim-of-right doctrine	B : Income is considered received when it is credited to a taxpayer's account or made unconditionally available to him or her.
C : Constructive receipt doctrine	C : A concept that is fundamental to the progressive tax rate structure
D : Ability-to-pay concept	D : A deduction is allowed only for an expenditure that is made for a business or economic purpose that exceeds any tax avoidance motive of the taxpayer.
E : Business purpose concept	E : The amount of a deduction can never

exceed its cost.

F : Capital recovery concept

F : Income should be recognized and a tax paid when the taxpayer has the resources to pay the tax.

G : Wherewithal-to-pay concept

G : A type of deductible expenditure that embodies the profit motive requirement

H : Trade or business expense

H : Allows the omission of items from the tax base whenever the costs of compliance exceed the revenue generated

I : Personal expense

I : A category of expenses that is specifically disallowed (with a few specific exceptions)

Correct Answer :
A : H

B : A

C : B

D : C

E : D

F : E

G : F

H : G

I : I