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Becker CPA Exam Review

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Becker CPA Exam Review

CPA-01609 / Topic REG-01-03: Gross Income: Part 2

Title: PII Nov 93 #21

Perle, a dentist, billed Wood \$600 for dental services. Wood paid Perle \$200 cash and built a bookcase for Perle's office in full settlement of the bill. Wood sells comparable bookcases for \$350. What amount should Perle include in taxable income as a result of this transaction?

- A. \$0
- B. \$200
- C. \$550
- D. \$600

Explanation

1. **Choice "C" is correct.** The \$200 cash received plus the \$350 fair value of the bookcase received must be included in income by Perle, for a total of \$550. The income is based on the value in money or fair value of property received by Perle, not the \$600 billed.
2. Choice "A" is incorrect. Perle must report taxable income as a result of this transaction.
3. Choice "B" is incorrect. The \$350 fair value of the bookcase received is also income for Perle.
4. Choice "D" is incorrect. The income is based on the total value received by Perle, not the \$600 billed.

CPA-02003 / Topic REG-02-01: Adjustments

Title: PII Nov 93 #28 (Adapted)

Davis, a sole proprietor with no employees, has a Keogh profit-sharing plan to which he may contribute and deduct 25% of his annual earned income. For this purpose, "earned income" is defined as net self-employment earnings reduced by the:

- A. Deductible Keogh contribution.
- B. Self-employment tax.
- C. Self-employment tax and one-half of the deductible Keogh contribution.
- D. Deductible Keogh contribution and one-half of the self-employment tax.

Explanation

1. **Choice "D" is correct.** For Keogh plans, earned income is defined as net self-employment earnings reduced by the amount of the allowable Keogh deduction and $\frac{1}{2}$ the self-employment tax.
2. Choice "A" is incorrect. For Keogh plans, earned income is also reduced by $\frac{1}{2}$ the self-employment tax.
3. Choice "B" is incorrect. For Keogh plans, earned income is reduced by $\frac{1}{2}$ the self-employment tax, not the entire tax.
4. Choice "C" is incorrect. For Keogh plans, earned income is reduced by $\frac{1}{2}$ the self-employment tax and the full amount of the deductible Keogh contribution.

CPA-06907 / Topic REG-03-02: Taxable and Nontaxable Dispositions

Title: AICPA Newly Released 2011

A married couple purchased their principal residence for \$300,000. They spent \$40,000 on improvements. After living in it for 10 years, the couple sold the home for \$650,000 and paid \$36,000 in real estate commissions. What gain should the couple recognize on their joint return?

- A. \$0
- B. \$60,000

- C. \$274,000
- D. \$310,000

Explanation

1. **Choice "A" is correct.** The sale of the taxpayer's personal (primary or principal) residence is subject to an exclusion from gross income for a gain of \$500,000 married filing joint or \$250,000 single. To qualify, the taxpayer must have owned and used the property as a principal residence for two years or more during the five-year period ending on the date of the sale or exchange.

Taxpayer's Basis: 300,000 Purchase price

40,000 Improvements

36,000 Real estate commissions

376,000 Ending basis

Sales Price: 650,000

Gain on sale: 274,000 Under allowed \$500,000 exclusion for a married couple

2. Choice "B" is incorrect based on the above calculation.
3. Choice "C" is incorrect. \$274,000 is the *realized* gain, yet it does not need to be *recognized*.
4. Choice "D" is incorrect based on the above calculation.

CPA-06003 / Topic REG-04-01: Corporate Formation

Title: Released 2009

In April, X and Y formed Z Corp. X contributed \$50,000 cash, and Y contributed land worth \$70,000 (with an adjusted basis of \$40,000). Y also received \$20,000 cash from the corporation. X and Y each receive 50% of the corporation's stock. What is the tax basis of the land to Z Corp.?

- A. \$40,000
- B. \$50,000
- C. \$60,000
- D. \$70,000

Explanation

Rule: There is no gain or loss to the corporation issuing stock in exchange for property for the issuance of stock. The general rule is that the basis of the property received from the transferor/shareholder is the greater of: (1) adjusted net book value of the transferor/shareholder plus any gain recognized by the transferor/shareholder or (2) debt assumed by the corporation.

1. **Choice "C" is correct.** X and Y form Z Corporation so that each receives a 50% interest in the corporation. X contributes \$50,000 in cash, and Y contributes land worth \$70,000 and receives \$20,000 from the corporation [note that each has contributed a net \$50,000]. Z Corporation will record the basis of the land at the basis of Y (\$40,000) plus any cash it paid to secure the land (\$20,000), or \$60,000 total basis. Per the above general rule, the basis of the property received from the transferor/shareholder is the greater of: (1) adjusted net book value of the transferor/shareholder plus any gain recognized by the transferor/shareholder or (2) debt assumed by the corporation. As there is no indicated debt on the land nor any gain recognized by Y on the transfer [because X and Y own at least 80% of the voting stock immediately after the transaction, the basis is the adjusted net book value of Y (\$40,000) plus any cash Z Corporation pays for the land (\$20,000). [Note that we have *not* addressed the shareholder consequences in this question.]
2. Choice "A" is incorrect. The answer includes only Y's \$40,000 basis in the land. Z Corporation will record the basis of the land at the basis of Y (\$40,000) plus any cash it paid to secure the land (\$20,000), or \$60,000 total basis.
3. Choice "B" is incorrect. This answer option is the amount of fair market value each shareholder was to contribute to form the corporation at inception. Because Y contributed land worth \$70,000, the corporation paid Y \$20,000 in cash to make each shareholder contribute \$50,000 in FMV of assets.
4. Choice "D" is incorrect. This answer option is the amount of the fair market value of the land at the date of transfer. Per the above general rule, the basis of the property received from the transferor/shareholder is the greater of: (1) adjusted net book value of the transferor/shareholder plus any gain recognized by the

transferor/shareholder or (2) debt assumed by the corporation. Refer to the calculation for answer option "C".

CPA-08467 / Topic REG-05-03: Partnerships: Part 2

Title: AICPA Newly Released 2014

Able, an individual, is a partner in CD Partnership with an adjusted basis of \$30,000 for Able's partnership interest. Able received a non-liquidating distribution of \$25,000 cash and property with an adjusted basis of \$7,000, and a fair market value of \$10,000. What amount of gain should Able recognize?

- A. \$0
- B. \$2,000
- C. \$5,000
- D. \$12,000

Explanation

1. **Choice "A" is correct.** Gain is recognized only to the extent that cash distributed exceeds the adjusted basis of the partner's interest in the partnership immediately before the distribution. Able's basis in the partnership immediately before the distribution is \$30,000. The cash distribution is \$25,000. This is not in excess of basis and there is a \$5,000 basis remaining. Able's basis in the distributed property is the \$5,000 remaining partnership basis.
2. Choices "B", "C", and "D" are incorrect, per the above explanation.

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