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CPA Exam Sample Questions

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CPA Exam Sample Questions

The following REG questions are a sample of those released to the general public by the AICPA in 2019. They are included here with permission of the AICPA.

1. Lemon owned 2,000 shares of Spectrol Corp. common stock that were purchased in year 1 at \$10.50 per share. In year 4, Lemon received a 5% non-taxable dividend of Spectrol common stock. In year 5, the stock split 2-for-1. In the current year Lemon sold 800 shares. What is Lemon's basis in the 800 shares of stock sold?
 - a. \$4,000
 - b. \$8,000
 - c. \$8,400
 - d. \$16,800

Answer: a

2. Vale is a 50% partner in Ball Partnership. Vale's tax basis in Ball on January 2, year 1, was \$60,000. Ball did not have unrealized receivables, appreciated inventory, or properties that had been contributed by its partners. On December 31, year 1, Ball made a \$10,000 *nonliquidating* cash distribution to each partner. The Ball Partnership income tax return reported the following items for year 1:

Tax-exempt interest income	\$80,000
Dividend income	12,000

What total amount of gross income from Ball should be included in Vale's year 1 adjusted gross income?

- a. \$6,000
- b. \$16,000
- c. \$36,000
- d. \$46,000

Answer: a

3. Prime Corp. is an accrual-basis, calendar-year C corporation. Its current year reported book income before federal income taxes was \$300,000, which included \$17,000 corporate bond interest income. A \$20,000 expense for term life insurance premiums on corporate officers was incurred. Prime was the policy owner and beneficiary. What was Prime's current-year taxable income as reconciled on Prime's Schedule M-1, *Reconciliation of Income (Loss) per Books with Income per Return*, of Form 1120, *U.S. Corporation Income Tax Return*?
- a. \$320,000
 - b. \$300,000
 - c. \$283,000
 - d. \$280,000

Answer: a

4. On January 1, the partners' interest in capital, profits, and losses of Studio Partnership were:

<u>Partners</u>	<u>Percentages</u>
Ross	15%
Stone	35%
Taylor	50%

On April 9, Stone sold his entire interest to Taylor. For tax purposes, which of the following statements is correct regarding Studio's status as a partnership?

- a. Studio terminated as of January 1.
- b. Studio terminated as of April 9.
- c. Studio terminated as of December 31.
- d. Studio did not terminate.

Answer: d