



CPA-REGULATION^{Q&As}

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QUESTION 1

Which payment(s) is(are) included in a recipient's gross income?

I. Payment to a graduate assistant for a part-time teaching assignment at a university. Teaching is not a requirement toward obtaining the degree.

II.

A grant to a Ph.D. candidate for his participation in a university-sponsored research project for the benefit of the university.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: C

Choice "c" is correct.

I. A payment to a student for a part-time teaching assignment is taxable income just as a payment for any other campus job would be. This is not a scholarship or fellowship. II. There is no exclusion in the tax law for amounts paid to a degree candidate for participation in university-sponsored research.

QUESTION 2

Mosh, a sole proprietor, uses the cash basis of accounting. At the beginning of the current year, accounts receivable were \$25,000. During the year, Mosh collected \$100,000 from customers. At the end of the year, accounts receivable were \$15,000. What was Mosh's gross taxable income for the current year?

A. \$75,000

B. \$90,000

C. \$100,000

D. \$110,000

Correct Answer: C

Choice "c" is correct. The facts state that cash collections from customers were \$100,000 and as a cash basis taxpayer



this is the amount of Mosh's gross taxable income for the year. Note that according to the formula BASE - we can determine the amount of sales = \$90,000, but that would give us accrual, not cash basis, income.

Beginning A/R	\$ 25,000	
Add - Sales	<u>90,000</u>	accrual basis taxable income
	115,000	
Subtract - Cash collections	<u>(100,000)</u>	cash basis taxable income
Ending A/R	\$ 15,000	

Choice "a" is incorrect. See explanation above.

Choice "b" is incorrect. \$90,000 is the amount of sales that would be Mosh's taxable income if Mosh were an accrual basis taxpayer.

Choice "d" is incorrect. See explanation above.

QUESTION 3

Under the uniform capitalization rules applicable to property acquired for resale, which of the following costs should be capitalized with respect to inventory if no exceptions are met?

	<u>Marketing costs</u>	<u>Off-site storage costs</u>
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. Under the uniform capitalization rules, purchasers of inventory for resale may deduct their marketing costs but must capitalize their off-site storage costs.

Choices "a", "b", and "c" are incorrect. Marketing costs are deductible, but off-site storage must be



capitalized.

QUESTION 4

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing \$70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent. Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040. Tom's 1994 wages were \$53,000. In addition, Tom's employer provided group-term life insurance on Tom's life in excess of \$50,000. The value of such excess coverage was \$2,000.

- A. \$0
- B. \$500
- C. \$900
- D. \$1,000
- E. \$1,250
- F. \$1,300
- G. \$1,500
- H. \$2,000
- I. \$2,500
- J. \$3,000
- K. \$10,000
- L. \$25,000
- M. \$50,000
- N. \$55,000
- O. \$75,000

Correct Answer: A

"N" is correct. \$55,000. The value of employer-provided group term life insurance for which the face amount exceeds \$50,000 is taxable income to the insured employee and the \$53,000 in wages would both be included on page one, Form 1040.

QUESTION 5

In which of the following situations may taxpayers file as married filing jointly?

- A. Taxpayers who were married but lived apart during the year.
- B. Taxpayers who were married but lived under a legal separation agreement at the end of the year.



C. Taxpayers who were divorced during the year.

D. Taxpayers who were legally separated but lived together for the entire year.

Correct Answer: A

RULE: In order to file a joint return, the parties must be MARRIED at the end of the year. Exception: If the parties are married but are LEGALLY SEPARATED under the laws of the state in which they reside, they cannot file a joint return (they will file either under the single or head of household filing status).

Choice "a" is correct. Per the above rule, taxpayers who are married but lived apart during the year are allowed to file a joint return for the year. The fact that they did not live together during the year has no bearing on the issue. Choice "b" is incorrect. Per the above rule, taxpayers who are married but lived under a legal separation agreement at the end of the year may not file a joint return. They will generally file either under the single or head of household filing status. Choice "c" is incorrect. Per the above rule, taxpayers who were divorced during the year may not file a joint return together, as they are not married at the end of the year. [Note, however, that they may become married again in the year and file a joint return with the new spouse.] Choice "d" is incorrect. Per the above rule, taxpayers who were legally separated but lived together for the entire year may not file a joint return. They will generally file either under the single or head of household filing status.

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