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QUESTION 1

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. In 1992, Joan received an acre of land as an inter-vivos gift from her grandfather. At the time of the gift, the land had a fair market value of \$50,000. The grandfather's adjusted basis was \$60,000. Joan sold the land in 1994 to an unrelated third party for \$56,000.

- 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

Explanation: "A" is correct. \$0. Property received by gift has two bases: one for computing gain and another for computing loss. Joan's basis for gain is the grandfather's adjusted basis (\$60,000). Using this basis for gain, Joan has a loss of: $\$56,000 - \$60,000 = (\$4,000 \text{ loss})$. Joan's basis for loss is the fair market value of the property on the date of the gift (\$50,000). Using this basis for loss, Joan has a gain of: $\$56,000 - \$50,000 = \$6,000 \text{ gain}$. In this unusual situation, Joan has neither a gain nor a loss, although the transaction must be reported.

QUESTION 2

Considering the SCOR Model of supply chain operations, which of the following key management processes does managing accounts receivable and collections from customers fall into?

- A. Plan.



- B. Source.
- C. Make.
- D. Deliver.

Correct Answer: D

Explanation:

Choice "d" is correct. The "deliver" process encompasses all the activities of getting the finished product into the hands of the ultimate consumers to meet their planned demand. Managing accounts receivable and collections from customers falls into the "deliver" process.

Choices "a", "b", and "c" are incorrect, per the above Explanation.

QUESTION 3

Which of the following provides the most authoritative guidance for an auditor?

- A. An AICPA audit and accounting guide that provides specific guidance with respect to the accounting practices in the client's industry.
- B. A Journal of Accountancy article discussing implementation of a new standard.
- C. General guidance provided by a Statement on Auditing Standards.
- D. Specific guidance provided by an interpretation of a Statement on Auditing Standards.

Correct Answer: C

Explanation: Choice "c" is correct. General guidance provided by a Statement on Auditing Standards is the most authoritative of level of auditing guidance. Auditors are required to comply with SASs, and should be prepared to justify any departures therefrom. Choices "a" and "d" are incorrect. AICPA audit and accounting guides and SAS interpretations are interpretive publications that provide guidance regarding how SASs should be applied in specific situations. They are not as authoritative as SASs. Choice "b" is incorrect. Journal of Accountancy articles have no authoritative status but may be helpful to the auditor.

QUESTION 4

Compared to firms in a perfectly competitive market, a monopolist tends to:

- A. Produce substantially less but charge a higher price.
- B. Produce substantially more and charge a higher price.
- C. Produce the same output and charge a higher price.
- D. Produce substantially less and charge a lower price.

Correct Answer: A



Explanation:

Choice "a" is correct. Compared to firms in a perfectly competitive market, a monopolist tends to produce substantially less but charge a higher price.

Choices "b", "c", and "d" are incorrect, per above Explanation.

QUESTION 5

If the demand for a normal good is inelastic, then the sales price of the product would increase following a (n):

- A. Decrease in the price of a substitute good.
- B. Increase in the supply of the product.
- C. Decrease in the supply of the product.
- D. Increase in the number of suppliers of the product.

Correct Answer: C

Explanation: Choice "c" is correct. If demand is perfectly inelastic (or not price sensitive), there will be no change in quantity demanded for a change in price. This means that consumers of the product will demand a constant quantity, regardless of the price. If the quantity supplied is reduced (presumably below an equilibrium point where supply equals demand), there will be excess demand for the product and sales price will go up. The increase in sales price will have no impact on demand (because demand is assumed to be perfectly price inelastic). Choices "a", "b", and "d" are incorrect, per the above Explanation.

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