



Following are multiple choice questions recently released by the AICPA. These questions were released by the AICPA with letter answers only. Our editorial board is currently working on providing detailed explanations for these questions, so please check back to the Becker Knowledgebase soon for the updated file.

Please note that the AICPA generally releases questions that it does NOT intend to use again. These questions and content may or may not be representative of questions you may see on any upcoming exams.

1. CPA-

Under which of the following circumstances is trust property with an independent trustee includible in the grantor's gross estate?

- a. The trust is revocable.
- b. The trust is established for a minor.
- c. The trustee has the power to distribute trust income.
- d. The income beneficiary disclaims the property, which then passes to the remainderman, the grantor's friend.

Explanation

Choice "a" is correct

2. CPA-

Brisk Corp. is an accrual-basis, calendar-year C corporation with one individual shareholder. At year end, Brisk had \$600,000 accumulated and current earnings and profits as it prepared to make its only dividend distribution for the year to its shareholder. Brisk could distribute either cash of \$200,000 or land with an adjusted tax basis of \$75,000 and a fair market value of \$200,000. How would the taxable incomes of both Brisk and the shareholder change if land were distributed instead of cash?

	<i>Brisk's</i> <u>taxable income</u>	<i>Shareholder's</i> <u>taxable income</u>
a.	No change	No change
b.	Increase	No change
c.	No change	Decrease
d.	Increase	Decrease

Explanation

Choice "b" is correct.

3. CPA-

Under the Negotiable Instruments Article of the UCC, which of the following parties has secondary liability on an instrument?

- a. An acceptor of a note.
- b. An issuer of a cashier's check.
- c. A drawer of a draft.
- d. A maker of a note.

Explanation

Choice "c" is correct.

4. CPA-

Train issued a note payable to Blake in payment of contracted services that Blake was to perform. Blake endorsed the note "pay to bearer" and delivered it to Reed in satisfaction of a debt owed Reed. Train refused to pay Reed on the note because Blake had not yet performed the services. Under the Negotiable Instruments Article of the UCC, must Train pay Reed?

- a. No, Train does not have to pay Reed until the services are performed.
- b. No, Train does not have to pay Reed because the note was issued to Blake.
- c. Yes, Train has to pay Reed because the note was converted into bearer paper.
- d. Yes, Train has to pay Reed because Reed was a holder in due course.

Explanation

Choice "d" is correct.

5. CPA-

Assuming appropriate disclosure is made, which of the following fee arrangements generally would be permitted under the ethical standards of the profession?

- a. A fee paid to the client's audit firm for recommending investment advisory services to the client.
- b. A fee paid to the client's tax accountant for recommending a computer system to the client.
- c. A contingent fee paid to the CPA for preparing the client's amended income tax return.
- d. A contingent fee paid to the CPA for reviewing the client's financial statements.

Explanation

Choice "b" is correct.

6. CPA-

Fox, the sole shareholder in Fall, a C corporation, has a tax basis of \$60,000. Fall has \$40,000 of accumulated positive earnings and profits at the beginning of the year and \$10,000 of current positive earnings and profits for the current year. At year end, Fall distributed land with an adjusted basis of \$30,000 and a fair market value (FMV) of \$38,000 to Fox. The land has an outstanding mortgage of \$3,000 that Fox must assume. What is Fox's tax basis in the land?

- a. \$38,000
- b. \$35,000
- c. \$30,000
- d. \$27,000

Explanation

Choice "a" is correct.

7. CPA-

Dart, a C corporation, distributes software over the Internet and has had average revenues in excess of \$20 million dollars per year for the past three years. To purchase software, customers key-in their credit card number to a secure web site and receive a password that allows the customer to immediately download the software. As a result, Dart doesn't record accounts receivable or inventory on its books. Which of the following statements is correct?

- a. Dart may use either the cash or accrual method of accounting as long as Dart elects a calendar year end.
- b. Dart may utilize any method of accounting Dart chooses as long as Dart consistently applies the method it chooses.
- c. Dart must use the accrual method of accounting.
- d. Dart may utilize the cash basis method of accounting until it incurs an additional \$10 million to develop additional software.

Explanation

Choice "c" is correct.

8. CPA-

Spinner, CPA, had audited Lasco Corp.'s financial statements for the past several years. Prior to the current-year's engagement, a disagreement arose that caused Lasco to change auditing firms. Lasco has demanded that Spinner provide Lasco with Spinner's working papers so that Lasco may show them to prospective auditors to help them prepare their bids for Lasco's audit engagement. Spinner refused and Lasco commenced litigation. Under the ethical standards of the profession, will Spinner be successful in refusing to turn over the working papers?

- a. Yes, because Spinner is the owner of the working papers.
- b. Yes, because Lasco is required to direct prospective auditors to contact Spinner to make arrangements to view the working papers in Spinner's office.
- c. No, because Lasco has a legitimate business reason for demanding that Spinner surrender the working papers.
- d. No, because it was Lasco's financial statements that were audited.

Explanation

Choice "a" is correct.

9. CPA-

The Simone Trust reported distributable net income of \$120,000 for the current year. The trustee is required to distribute \$60,000 to Kent and \$90,000 to Lind each year. If the trustee distributes these amounts, what amount is includible in Lind's gross income?

- a. \$0
- b. \$60,000
- c. \$72,000
- d. \$90,000

Explanation

Choice "c" is correct.

10. CPA-

Sands purchased 100 shares of Eastern Corp. stock for \$18,000 on April 1 of the prior year. On February 1 of the current year, Sands sold 50 shares of Eastern for \$7,000. Fifteen days later, Sands purchased 25 shares of Eastern for \$3,750. What is the amount of Sand's recognized gain or loss?

- a. \$0
- b. \$500
- c. \$1,000
- d. \$2,000

Explanation

Choice "c" is correct.

11. CPA-

Under the Negotiable Instruments Article of the UCC, which of the following instruments is classified as a promise to pay?

- a. A check.
- b. A draft.
- c. A trade acceptance.
- d. A certificate of deposit.

Explanation

Choice "d" is correct.

12. CPA-

Under Regulation D of the Securities Act of 1933, what is the maximum time period during which an exempt offering may be made?

- a. Three months.
- b. Six months.
- c. Twelve months.
- d. Twenty-four months.

Explanation

Choice "c" is correct.

13. CPA-

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

- a. \$40,000
- b. \$50,000
- c. \$60,000
- d. \$70,000

Explanation

Choice "c" is correct.

14. CPA-

Which of the following is a capital asset?

- a. Inventory held primarily for sale to customers.
- b. Accounts receivable.
- c. A computer system used by the taxpayer in a personal accounting business.
- d. Land held as an investment.

Explanation

Choice "d" is correct.

15. CPA-

Aviary Corp. sold a building for \$600,000. Aviary received a down payment of \$120,000 as well as annual principal payments of \$120,000 for each of the subsequent four years. Aviary purchased the building for \$500,000 and claimed depreciation of \$80,000. What amount of gain should Aviary report in the year of sale using the installment method?

- a. \$180,000
- b. \$120,000
- c. \$54,000
- d. \$36,000

Explanation

Choice "d" is correct.

16. CPA-

Which of the following payments would require the donor to file a gift tax return?

- a. \$30,000 to a university for a spouse's tuition.
- b. \$40,000 to a university for a cousin's room and board.
- c. \$50,000 to a hospital for a parent's medical expenses.
- d. \$80,000 to a physician for a friend's surgery.

Explanation

Choice "b" is correct.

17. CPA-

Which of the following groups may elect to file a consolidated corporate return?

- a. A brother/sister-controlled group.
- b. A parent corporation and all more-than-10%-controlled partnerships.
- c. A parent corporation and all more-than-50%-controlled subsidiaries.
- d. Members of an affiliated group.

Explanation

Choice "d" is correct.

18. CPA-

A 33-year-old taxpayer withdrew \$30,000 (pretax) from a traditional IRA. The taxpayer has a 33% effective tax rate and a 35% marginal tax rate. What is the total tax liability associated with the withdrawal?

- a. \$10,000
- b. \$10,500
- c. \$13,000
- d. \$13,500

Explanation

Choice "d" is correct.

19. CPA-

A heavy equipment dealer would like to trade some business assets in a nontaxable exchange. Which of the following exchanges would qualify as nontaxable?

- a. The company jet for a large truck to be used in the corporation.
- b. Investment securities for antiques to be held as investments.
- c. A road grader held in inventory for another road grader.
- d. A corporate office building for a vacant lot.

Explanation

Choice "d" is correct.

20. CPA-

According to the AICPA Code of Professional Conduct, which of the following financial interests in the client during the period of the engagement impairs a CPA's independence?

- a. All direct and indirect financial interests.
- b. Only direct financial interests.
- c. Only direct and material indirect financial interests.
- d. Only material financial interests.

Explanation

Choice "c" is correct.

21. CPA-

Which of the following actions by a CPA most likely violates the profession's ethical standards?

- a. Using a records-retention agency to store confidential client records.
- b. Retaining client records after the client has demanded their return.
- c. Arranging with a financial institution to collect notes issued by a client in payment of fees due.
- d. Compiling the financial statements of a client that employed the CPA's spouse as a bookkeeper.

Explanation

Choice "b" is correct.

22. CPA-

Under the liability provisions of Section 11 of the Securities Act of 1933, a CPA who certifies financial statements included in a registration statement generally will not be liable to a purchaser of the security:

- a. Unless the purchaser can prove scienter on the part of the CPA.
- b. Unless the purchaser can prove privity with the CPA.
- c. If the CPA can prove due diligence.
- d. If the financial statements were materially misstated.

Explanation

Choice "c" is correct

23. CPA-

Camp orally guaranteed payment of a loan Camp's cousin Wilcox had obtained from Camp's friend Main. The loan was to be repaid in 10 monthly payments. After making six payments, Wilcox defaulted on the loan and Main demanded that Camp honor the guaranty. Regarding Camp's liability to Main, Camp is:

- a. Liable under the oral guaranty because the loan would be paid within one year.
- b. Liable under the oral guaranty because Camp benefitted by maintaining a personal relationship with Main.
- c. Not liable under the oral guaranty because Camp's guaranty must be in writing to be enforceable.
- d. Not liable under the oral guaranty because of failure of consideration.

Explanation

Choice "c" is correct.

24. CPA-

During the current year, Mann, an unmarried U.S. citizen, made a \$5,000 cash gift to an only child and also paid \$25,000 in tuition expenses directly to a grandchild's university on the grandchild's behalf. Mann made no other lifetime transfers. Assume that the gift tax annual exclusion is \$12,000. For gift tax purposes, what was Mann's taxable gift?

- a. \$30,000
- b. \$25,000
- c. \$18,000
- d. \$0

Explanation

Choice "d" is correct.

25. CPA-

Wynn, a single individual age 60, sold Wynn's personal residence for \$450,000. Wynn had owned Wynn's residence, which had a basis of \$250,000, for six years. Within eight months of the sale, Wynn purchased a new residence for \$400,000. What is Wynn's recognized gain from the sale of Wynn's personal residence?

- a. \$0
- b. \$50,000
- c. \$75,000
- d. \$200,000

Explanation

Choice "a" is correct.

26. CPA-

George and Suzanne have been married for 40 years. Suzanne inherited \$1,000,000 from her mother. Assume that the annual gift-tax exclusion is \$12,000. What amount of the \$1,000,000 can Suzanne give to George without incurring a gift-tax liability?

- a. \$12,000
- b. \$24,000
- c. \$500,000
- d. \$1,000,000

Explanation

Choice "d" is correct.

27. CPA-

Kant, a cash-basis individual, owns and operates an office building. Kant received the following payments during the current year:

Current rents	\$30,000
Advance rents for the next year	10,000
Security deposits held in a segregated account	5,000
Lease cancellation payments	15,000

What amount is included in gross income?

- a. \$30,000
- b. \$40,000
- c. \$55,000
- d. \$60,000

Explanation

Choice "c" is correct.

28. CPA-

Webster, a C corporation, has \$70,000 in accumulated and no current earnings and profits. Webster distributed \$20,000 cash and property with an adjusted basis and fair market value of \$60,000 to its shareholders. What amount should the shareholders report as dividend income?

- a. \$20,000
- b. \$60,000
- c. \$70,000
- d. \$80,000

Explanation

Choice "c" is correct.

29. CPA-

Under the Secured Transactions Article of the UCC, for which of the following types of collateral must a financing statement be filed in order to perfect a purchase money security interest?

- a. Stock certificates.
- b. Promissory notes.
- c. Personal jewelry.
- d. Inventory.

Explanation

Choice "d" is correct.

30. CPA-

Under the Secured Transactions Article of the UCC, what secured transaction document must be signed by the debtor?

- a. Statement of assignment.
- b. Security agreement.
- c. Release of collateral.
- d. Termination statement.

Explanation

Choice "b" is correct.

31. CPA-

Ames and Roth form Homerun, a C corporation. Ames contributes several autographed baseballs to Homerun. Ames purchased the baseballs for \$500, and they have a total fair market value of \$1,000. Roth contributes several autographed baseball bats to Homerun. Roth purchased the bats for \$5,000, and they have a fair market value of \$7,000. What is Homerun's basis in the contributed bats and balls?

- a. \$0
- b. \$5,500
- c. \$6,000
- d. \$8,000

Explanation

Choice "b" is correct.

32. CPA-

Sandy is the sole shareholder of Swallow, an S corporation. Sandy's adjusted basis in Swallow stock is \$60,000 at the beginning of the year. During the year, Swallow reports the following income items:

Ordinary income	\$30,000
Tax-exempt income	5,000
Capital gains	10,000

In addition, Swallow makes a nontaxable distribution to Sandy of \$20,000 during the year. What is Sandy's adjusted basis in the Swallow stock at the end of the year?

- a. \$60,000
- b. \$70,000
- c. \$80,000
- d. \$85,000

Explanation

Choice "d" is correct.

33. CPA-

A \$100,000 increase in partnership liabilities is treated in which of the following ways?

- a. Increases each partner's basis in the partnership by \$100,000.
- b. Increases the partners' bases only if the liability is nonrecourse.
- c. Increases each partner's basis in proportion to their ownership.
- d. Does not change any partner's basis in the partnership regardless of whether the liabilities are recourse or nonrecourse.

Explanation

Choice "c" is correct.

34. CPA-

Under the Secured Transactions Article of the UCC, all of the following are needed to create an enforceable security interest, except:

- a. A security agreement must exist.
- b. The secured party must give value.
- c. The debtor must have rights in the collateral.
- d. A financing statement must be filed.

Explanation

Choice "d" is correct.

35. CPA-

An individual received \$50,000 during the current year pursuant to a divorce decree. A check for \$25,000 was identified as annual alimony, checks totaling \$10,000 as annual child support, and a check for \$15,000 as a property settlement. What amount should be included in the individual's gross income?

- a. \$50,000
- b. \$40,000
- c. \$25,000
- d. \$0

Explanation

Choice "c" is correct.

36. CPA-

Bluff purchased equipment for business use for \$35,000 and made \$1,000 of improvements to the equipment. After deducting depreciation of \$5,000, Bluff gave the equipment to Russett for business use. At the time the gift was made, the equipment had a fair market value of \$32,000. Ignoring gift tax consequences, what is Russett's basis in the equipment?

- a. \$31,000
- b. \$32,000
- c. \$35,000
- d. \$36,000

Explanation

Choice "a" is correct.

37. CPA-

Dale was a 50% partner in D&P Partnership. Dale contributed \$10,000 in cash upon the formation of the partnership. D&P borrowed \$10,000 to purchase equipment. During the first year of operations, D&P had \$15,000 net taxable income, \$2,000 tax-exempt interest income, a \$3,000 distribution to each partner, and a \$4,000 reduction of debt. At the end of the first year of operation, what amount would be Dale's basis?

- a. \$16,500
- b. \$17,500
- c. \$18,500
- d. \$21,500

Explanation

Choice "c" is correct.

38. CPA-

The adjusted basis of Smith's interest in EVA partnership was \$230,000 immediately before receiving the following distribution in complete liquidation of EVA:

	<u>Basis to EVA</u>	<u>Fair market value</u>
Cash	\$150,000	\$150,000
Real estate	120,000	146,000

What is Smith's basis in the real estate?

- a. \$146,000
- b. \$133,000
- c. \$120,000
- d. \$80,000

Explanation

Choice "d" is correct.

39. CPA-

A CPA in public practice may not disclose confidential client information regarding auditing services without the client's consent in response to which of the following situations?

- a. A review of the CPA's professional practice by a state CPA society.
- b. A letter to the client from the IRS.
- c. An inquiry from the professional ethics division of the AICPA.
- d. A court-ordered subpoena or summons.

Explanation

Choice "b" is correct.

40. CPA-

An S corporation engaged in manufacturing has a year end of June 30. Revenue consistently has been more than \$10 million under both cash and accrual basis of accounting. The stockholders would like to change the tax status of the corporation to a C corporation using the cash basis with the same year end. Which of the following statements is correct if it changes to a C corporation?

- a. The year end will be December 31, using the cash basis of accounting.
- b. The year end will be December 31, using the accrual basis of accounting.
- c. The year end will be June 30, using the accrual basis of accounting.
- d. The year end will be June 30, using the cash basis of accounting.

Explanation

Choice "c" is correct.