

Question 1 of 36

During a major sports event, a taxpayer rented his primary residence to spectators for 10 days. The taxpayer's rental income and expenses were as follows:

Rental income	\$10,000
Prorated mortgage and taxes	1,000
Advertising	500
Commissions	1,000

How much net rental income must the taxpayer report on the tax return?

- A. \$0
 - B. \$7,500
 - C. \$8,500
 - D. \$10,000
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Question 2 of 36

For the year ended December 31, Year 3, a C corporation reported an operating loss of \$55,000 and the following additional items:

Net operating loss deduction (carryover from Year 2)	\$13,400
Dividends received deduction	\$6,600
Charitable contributions made during Year 3	\$5,000

What is the corporation's net operating loss for Year 3?

- A. \$75,000
 - B. \$68,400
 - C. \$61,600
 - D. \$60,000
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Question 3 of 36

Wilson sold his factory to Glenn. As part of the contract, Glenn assumed the existing mortgage on the property which was held by Security Bank. Regarding the rights and duties of the parties, which of the following is correct?

- A. The promise by Glenn need not be in writing to be enforceable by Security.
 - B. Security is a creditor beneficiary of Glenn's promise and can recover against him personally in the event of default.
 - C. Security is a mere incidental beneficiary since it was not a party to the assignment.
 - D. Wilson has no further liability to Security.
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Question 4 of 36

In which of the following circumstances will a tax return preparer **not** be assessed an understatement penalty for a reportable transaction on a tax return?

- A. The position has a reasonable chance of being sustained.
 - B. The position has a high probability of being sustained.
 - C. The position has a more likely than not chance of being sustained.
 - D. The position has enough substantial authority that it will be sustained.
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Question 5 of 36

Which of the following credits can result in a refund even if the individual had no income tax liability?

- A. Lifetime learning credit
 - B. Credit for the elderly or the disabled
 - C. Earned income credit
 - D. Adoption credit
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Question 6 of 36

Which of the following actions requires an agent for a corporation to have a written agency agreement?

- A. Purchasing office supplies for the principal's business.
 - B. Purchasing an interest in undeveloped land for the principal.
 - C. Hiring an independent contractor to landscape the principal's land.
 - D. Hiring a debt collector to collect a business debt owed the principal.
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Question 7 of 36

Fender has a Schedule C auto repair business. In the first year of operations, Fender purchased diagnostic equipment that cost \$75,000 and power tools that cost \$10,000. Fender elected to expense the \$10,000 of power tools in Year 1 according to Section 179 (Election to Expense Certain Depreciable Business Assets). Assume that Fender elected out of using bonus depreciation. Both the diagnostic equipment and power tools have a seven-year class life. The double-declining balance MACRS depreciation rates for seven-year property using half-year convention are as follows:

Recovery year Depreciation rate

1	0.1429
2	0.2449
3	0.1749
4	0.1249
5	0.0893
6	0.0892
7	0.0893
8	0.0446

What amount of depreciation expense should Fender report in Year 2?

- A. \$10,717.50
 - B. \$12,146.50
 - C. \$18,367.50
 - D. \$20,816.50
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Question 8 of 36

An individual taxpayer owns 100% of Talon, an S corporation. At the beginning of the year, the taxpayer's basis in Talon was \$65,000. Talon reported the following items from operations during the current year:

Ordinary loss	\$10,000
Municipal interest income	6,000
Long-term capital gain	4,000
Short-term capital loss	9,000

What was the taxpayer's basis in Talon at year end?

- A. \$50,000
 - B. \$55,000
 - C. \$56,000
 - D. \$61,000
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Question 9 of 36

Under Chapter 7 of the federal Bankruptcy Code, what effect does a bankruptcy discharge have on a judgment creditor when there is **no** bankruptcy estate?

- A. The judgment creditor's claim is nondischargeable.
 - B. The judgment creditor retains a statutory lien against the debtor.
 - C. The debtor is relieved of any personal liability to the judgment creditor.
 - D. The debtor is required to pay a liquidated amount to vacate the judgment.
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Question 10 of 36

Price owns 2,000 shares of Universal Corp.'s \$10 cumulative preferred stock. During its first year of operations, cash dividends of \$5 per share were declared on the preferred stock but were never paid. In the second year, dividends on the preferred stock were neither declared nor paid. If Universal is dissolved, which of the following statements is correct?

- A. Universal will be liable to Price as an unsecured creditor for \$10,000.
- B. Universal will be liable to Price as a secured creditor for \$20,000.
- C. Price will have priority over the claims of Universal's bond owners.
- D. Price will have priority over the claims of Universal's unsecured judgment creditors.

Question 11 of 36

The IRS requested client records from a CPA who does not have possession or control of the records. According to Treasury Circular 230, the CPA must

- A. Notify the IRS of the identity of any person who, according to the CPA's belief, could have the records.
- B. Require the client to submit the records to the IRS or withdraw from the engagement.
- C. Obtain the records from the client and submit them to the IRS.
- D. Contact all third parties associated with the records, such as banks and employers, to obtain the requested records for submission to the IRS.

Question 12 of 36

Freeman, a single individual, reported the following income in the current year:

Guaranteed payment from services rendered to a partnership	\$50,000
Ordinary income from an S corporation	20,000

What amount of Freeman's income is subject to self-employment tax?

- A. \$0
- B. \$20,000
- C. \$50,000
- D. \$70,000

Question 13 of 36

In preparing a client's current year individual income tax return, a tax practitioner discovers an error in the prior year's return. Under the rules of practice prescribed in Treasury Circular 230, the tax practitioner

- A. Is barred from preparing the current year's return until the prior year error is rectified.
 - B. Must advise the client of the error.
 - C. Is required to notify the IRS of the error.
 - D. Must file an amended return to correct the error.
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