

Part 2

Section A:

Questions 1 – 20

The following statements are either true or false. Select the most appropriate answer and darken the oval under A for true or B for false.

1. You must adopt your first tax year by the due date including extensions for filing a return.
2. The basis of an intangible asset is usually the cost to buy or create it.
3. Any four-wheeled vehicle made primarily for use on public streets, roads and highways, and rated at 6,000 pounds or less of unloaded gross vehicle weight, is considered a passenger automobile for listed property purposes.
4. The allocation of loan proceeds and the related interest (to determine whether the interest is deductible) is **NOT** generally affected by the use of property that secures the loan.
5. If you are self-employed, you can deduct 65% of the premiums you paid during 2000 for health insurance for yourself and your family.
6. Generally, a business may deduct the sales tax paid on the purchase of a computer as a tax expense, in the year acquired.
7. When computing an NOL, capital losses in excess of capital gains may be deducted.
8. If your principal business is farming and you sell more livestock than you normally would in a year because of a drought, you may elect to postpone reporting the gain from selling the additional animals, to the following year.
9. The conversion from a partnership to a LLC (Limited Liability Company) is not considered a sale, exchange, or liquidation of any partnership interest. The partnership's tax year does not close, and the LLC can continue to use the partnership's taxpayer identification number.
10. If the one or more partners in a partnership have different tax years, and there is no partner or partners with a majority interest tax year, the partnership generally must use a tax year that results in the most aggregate deferral of income to the partners.

11. Jane received a gift from her mother of a capital interest in a family partnership in which capital is a material income-producing factor. There are no limits on the amount that can be allocated to Jane as a distributive share of income from the partnership.

12. Gains are treated as ordinary income in a sale or exchange of property directly or indirectly between a person and a partnership, if more than 50% of the capital or profits interest is directly or indirectly owned by the same person, and the property in the hands of transferee immediately after the transfer, is not a capital asset.

13. Losses will not be allowed from a sale or exchange of property (other than an interest in the partnership) directly or indirectly between a partnership and a person whose direct or indirect interest in the capital or profits of the partnership is more than 50%.

14. A contribution of money or other property to the partnership followed by a distribution of different property from the partnership to the partner is treated as a sale of property if, the partner's right to the distribution does not depend on the success of partnership's operations, and the distribution would not have been made but for the contribution.

15. A partnership's liability is a nonrecourse liability if a person related to one of the partners has an economic risk of loss for that liability.

16. For property contributed before June 9, 1997, a partner generally must recognize gain on the distribution of property (other than money) if the partner contributed appreciated property to the partnership during the 7- year period before the distribution.

17. Upon the receipt of a distribution, a retiring partner or successor in interest of a deceased partner will recognize gain only to the extent that any money distributed is more than the partner's adjusted basis in the partnership.

18. If a partner receives money or property inventory in exchange for any part of a partnership interest, the amount due to his/her share of the partnership's inventory items results in capital gain or loss.

19. Your general business credit for the current year may be increased later by the carry back of business credits from later years.

20. The work opportunity credit and the welfare-to-work credit may both be claimed with respect to wages paid to the same employee.

Turn to the next page for Part 2, Section B.

Part 2

Section B:

Questions 21 – 45

The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.

21. You can compute your taxable income under which of the following accounting methods?

- A. Hybrid method
- B. Accrual method
- C. Special method for certain items
- D. All of the above

22. Which of the following is not considered a related person?

- A. Two S Corporations if the same person owns more than 50% of each
- B. Members of a family
- C. An Individual and a Corporation where the individual owns, directly or indirectly 25% of the stock of the Corporation
- D. Grantor of any Trust

23. Which of the following does **NOT** reduce the basis of property?

- A. Credit for qualified electric vehicles
- B. Depreciation
- C. Zoning Costs
- D. Section 179 deductions

24. In September 2000, Charlie, a self-employed lawyer, performed legal services for a client that has a men's clothing store. In payment for his services, Charlie received store credit of \$3,500 in 2000. Charlie uses \$1,500 of his store credit in 2000 and the balance in 2001.

How should Charlie include the income?

- | | <u>2000</u> | <u>2001</u> |
|----|-------------------|-------------|
| A. | \$3,500 | \$0 |
| B. | \$1,500 | \$2,000 |
| C. | \$0 | \$3,500 |
| D. | None of the above | |

25. Generally, a substantial business inventory requires use of which method of accounting?

- A.** Cash
- B.** Hybrid
- C.** Accrual
- D.** None of the above

26. Which of the following activities would subject a taxpayer to the uniform capitalization rules?

- A.** Taxpayer produces real or tangible property for non-business use
- B.** Taxpayer acquires property not for resale
- C.** Taxpayer produces real or tangible personal property for sale to customers
- D.** None of the above

27. All of the following are excludable from wages **except**:

- A.** A non-cash achievement award valued at \$100
- B.** Meals furnished during work hours for the benefit of the employer
- C.** Employer provided vehicles when used by employee for personal purposes
- D.** De minimis fringe benefit

28. Which of the following fringe benefits cannot be excluded from the employee's income?

- A.** Memberships in municipal athletic facilities for employees, their spouses and their dependent children
- B.** Holiday gifts other than cash with a low market value
- C.** Transportation up to \$65 per month
- D.** Qualified employee discounts given employees on certain property and services offered to customers in the ordinary course of the line of business in which the employee performs services.

29. Mr. Skiles purchased the following business equipment:

Pick-up truck (< 6000 Gross Weight)	\$15,000
Cellular Phones	450
Desks	1,500
Chairs	<u>275</u>
Total	\$17,225

How much of his purchase is considered listed property for depreciation purposes?

- A. \$1,775
- B. \$0
- C. \$17,225
- D. \$15,450

30. Joe, a cash basis taxpayer, owned and operated a business. He began having difficulty paying his business debts in late 2000. Joe owed Gail, his computer consultant, \$2,200 for services rendered at his business and \$500 for non-business services rendered at his home. In 2000, Gail forgave the entire debt of \$2,700. Joe is neither bankrupt nor insolvent. What amount will Joe be required to include in income on his tax return for 2000?

- A. \$0
- B. \$2,200
- C. \$500
- D. \$2,700

31. With regard to deductible travel expenses when attending a convention, all of the following statements are correct **except**:

- A. If you can show that your attendance benefits your trade or business you can deduct yours and your family travel expenses providing the expenses are reasonable
- B. You cannot deduct expenses for attending a convention, seminar, or similar meeting held outside the U.S. area unless the meeting is directly related to your trade or business
- C. You must reduce otherwise deductible travel expenses that you pay by the reimbursements not reported on your Form W-2 that you received from others for these expenses
- D. If you establish that a meeting held on a cruise ship is directly related to your trade or business, you may be able to deduct up to \$2,000 per year of expenses

32. You usually work and live in Springfield but in March 2000 you are assigned to a job in Indianapolis for an indefinite period of time. How much, if any, of the following monthly expenses can you take as an expense on your 2000 tax return?

- Rent: \$2,500
- Meals \$ 500
- Travel \$ 150 round trip airfare to go home each weekend

- A.** \$2,650
- B.** \$0
- C.** \$2,750
- D.** \$2,900

33. With regard to deductible taxes, which of the following statements are correct?

- A. Local benefit taxes for business assets are deductible only if they are for maintenance, repair, or interest charges related to those benefits
- B. Real estate taxes on business property included in monthly mortgage payments placed in escrow CANNOT be deducted unless the lender actually paid the taxing authority
- C. Taxes on gasoline, diesel fuel, and other motor fuels that you use in your business should be deducted as part of the cost of the fuel.
- D. Any tax imposed by a state or local government on personal property used in your trade or business is deductible

- A.** A and C
- B.** B and D
- C.** A, B and D
- D.** All of the above

34. On January 2, 2000, XYZ Partnership purchased and placed in service a machine used for production purposes. The machine cost \$10,000 plus \$500 sales tax. XYZ Partnership financed the entire purchase price. During 2000, XYZ Partnership paid total interest of \$850 on the note. Concerning the income tax treatment of the above expenses, which of the following statements is correct?

- A.** Under the uniform capitalization rules, the interest AND sales tax should be included in the basis of the machine
- B.** Under the uniform capitalization rules, the interest should be included in the basis of the machine and the sales tax should be deducted as a current expense
- C.** The interest should be deducted, as a current expense and the sales tax should be included in the basis of the machine
- D.** The interest AND sales tax should be deducted as current expense

35. With regard to “other” business expenses for the tax year 2000, all of the following statements are correct **except**:

- A.** Reimbursements you make to job candidates for transportation or other expenses related to interviews for possible employment are deductible business expenses
- B.** Legal fees paid to acquire a new office building are ordinary and necessary expenses directly related to operating your business and are deductible as business expenses
- C.** You may deduct your own education expenses, including certain related travel that is related to your trade or business
- D.** None of the above

36. Which of the following statements with respect to the exchange of like-kind property is correct?

- A.** If there is an exchange of like-kind property in which you also received cash and the exchange results in a loss to you, you are allowed to deduct a loss to the extent of cash received
- B.** If there is an exchange of like-kind property in which you also give cash and the exchange results in a gain to you, you must report any gain to the extent of the cash given
- C.** If there is an exchange of like-kind property in which you also receive cash and the exchange results in a gain to you, you do NOT have to report the gain
- D.** If there is an exchange of like-kind property in which you also give cash and the exchange results in a loss to you, you CANNOT deduct a loss

37. Which of the following types of depreciable property is **NOT** Section 1245 property?

- A.** Single purpose agricultural (livestock) structures
- B.** Tangible personal property
- C.** Intangible personal property
- D.** Office building

38. Which of the following statements pertaining to gifts and transfers of depreciable property at death is **incorrect**?

- A.** If you make a gift of depreciable personal property or real property, you are NOT required to report any depreciation recapture as income on the transaction
- B.** The fair market value of depreciable real or personal property given to a charitable organization must ALWAYS be reduced by the potential ordinary gain from depreciation recapture when figuring the charitable contribution deduction
- C.** When a taxpayer dies, gain on depreciable personal property or real property that is transferred to his or her estate or beneficiary is reported on the decedent's final income tax return
- D.** If the recipient of a gift of depreciable personal property sells the property in a disposition that is subject to depreciation recapture, the recipient must take into account the depreciation the previous owner deducted when figuring the gain to be reported as ordinary income

39. Which of the following statements is correct about crop insurance and disaster payments?

- A.** The insurance proceeds can be deferred only if the farmer can show that the income from the crops would normally be reported in a tax year following the year of damage
- B.** An accrual basis taxpayer can elect to include crop insurance proceeds in income for the tax year following the tax year in which the crops were damaged
- C.** Insurance proceeds received in the tax year following the tax year in which the crops were destroyed can be deferred until the tax year following receipt of the proceeds
- D.** A separate election to defer the inclusion of crop disaster payments must be made for each damaged crop of the trade or business

40. Which of the following statements is correct in regard to postponing gains from sales caused by drought conditions?

- A.** Livestock, NOT raised or sold in a drought area, will qualify if the sale occurred solely because of drought conditions
- B.** Livestock sold before the area became eligible for Federal assistance qualify so long as the drought that caused the sale also caused the area to be designated as eligible for Federal assistance
- C.** Poultry qualifies if the sale was due to drought conditions
- D.** All of the above are correct

41. Partnership XYZ was formed on September 15, 2000, and elected to use a fiscal year ending November 30th. Partnership XYZ was required to file its return by which of the following dates?

- A. December 31, 2000
- B. January 16, 2001
- C. March 15, 2001
- D. April 16, 2001

42. All of the following items must be separately stated on the partnership's Schedule K (Form 1065) and included as separate items on the partner's return **except**:

- A. Ordinary gains and losses from Form 4797, Part II
- B. Gains and losses from sales or exchanges of capital assets
- C. Guaranteed payments to the partners
- D. Interest income

43. All of the following are true statements describing guaranteed payments **except**:

- A. Payments made to a partner without regard to the partnership's income
- B. Guaranteed payments are included in income in the partner's tax year in which the partnership's tax year ends
- C. Premiums for health insurance paid by a partnership on behalf of a partner for services as a partner are treated as guaranteed payments
- D. Guaranteed payments to a partner cannot create a loss on the partnership return (Form 1065)

44. The general business credit consists of the following credits **except**:

- A. Investment Credit
- B. Credit for alcohol used as fuel
- C. Work opportunity credit
- D. Qualified electric vehicle credit

45. An employee that qualifies for the work opportunity credit must be a member of a targeted group. All of the following are considered a targeted group **except**:

- A. Qualified veteran
- B. A qualified relative of the employer
- C. Qualified summer youth employee
- D. Qualified food stamp recipient

Turn to the next page for Part 2, Section C.

Part 2

Section C:

Questions 46 – 80

The following questions may require some computation. Select the most appropriate answer and darken completely the oval under the corresponding letter on the answer sheet.

46. Joe Crisco purchased the following assets for \$100,000:

<u>Description</u>	<u>FMV</u>
Certificate of Deposit	\$10,000
Equipment / Furniture	\$20,000
Franchise	\$90,000
Account Receivable	<u>\$30,000</u>
Total	\$150,000 =====

What is the purchase price of the intangible asset?

- A.** \$55,000
- B.** \$90,000
- C.** \$85,000
- D.** \$60,000

47. In December 1999 Mr. Smith purchased a manufacturing plant for \$92,600. The cost was allocated as follows:

Land (20%) - \$18,520 Building (80%) - \$74,080

The following items relating to the property occurred before the property was placed in service on January 1, 2000:

Building remodeling expenses	\$15,000
Storm damage (casualty loss) to building	\$ 9,000
Easement granted for right-of-way	\$ 2,500
Legal fees for perfecting title paid	\$ 3,600

What is the adjusted basis of the building and land on January 1, 2000?

- A. Building \$81,180, Land \$18,520
- B. Building \$82,960, Land \$16,740
- C. Building \$93,680, Land \$16,020
- D. Building \$80,080, Land \$19,240

48. In 2000 XYZ Corporation, a clothing retailer, showed the following expenses:

• Clothing purchased for resale	\$72,000
• Freight-in	\$ 3,550
• Freight out to customers	\$ 1,750
• Beginning inventory	\$55,650
• Ending inventory	\$42,500

What is XYZ's cost of goods sold?

- A. \$88,700
- B. \$175,450
- C. \$90,450
- D. \$86,900

49. Mr. Aspen, a cash basis CPA, pays Gail Smith to work during tax season as a data entry clerk. Mr. Aspen pays Gail the following:

• Hourly wages	\$6,275
• Bonuses	\$ 500
• Loan	\$ 150

How much can Mr. Aspen deduct as compensation?

- A. \$6,035
- B. \$6,775
- C. \$6,875
- D. \$7,135

50. In 2000, Charlie purchased a lease on an office building for 4 years, beginning January 1. Charlie paid \$27,000 in advance rent of which \$3,000 was for the purchase of the existing lease. The remaining was for monthly lease payments. How much can Charlie deduct for 2000?

- A. \$6000**
- B. \$0**
- C. \$3,000**
- D. \$9,000**

51. Wilma Smith leased a building for 4 years beginning in March 2000 for \$1,500 per month. On March 1, 2000, Mrs. Smith paid her landlord \$33,000 in rent. How much can she deduct on her 2000 tax return?

- A. \$33,000**
- B. \$18,000**
- C. \$0**
- D. \$15,000**

52. In June 2000 Gail bought a new computer for her business for \$7,500. She uses the computer 90% for her business and 10% for personal purposes. The business cost of the computer that she uses to figure her allowable Section 179 expense deduction is:

- A. \$3,978**
- B. \$7,500**
- C. \$6,750**
- D. \$-0-**

53. In July 2000 Jim Smith acquired and operated for profit a going business with the following assets:

	<u>Basis</u>
• Goodwill	\$ 15,000
• Land	\$ 35,000
• Building	\$105,000
• Equipment	\$ 75,000
• Cash	\$ 10,000

What is the amortization deduction for 2000?

- A. \$504**
- B. \$500**
- C. \$15,000**
- D. \$1,000**

54. On August 1, 2000, Bruce opened a business supply store. Prior to opening the business he incurred the following costs:

Legal fees related to setup	\$2,500
Office equipment	\$1,500
Interest expense for funds borrowed prior to opening	\$ 500
Market analysis	\$ 750
Travel expense to secure suppliers	<u>\$3,000</u>
Total	\$8,250

What is Bruce's amortization expense on his 2000 income tax return?

- A. \$1250
- B. \$521
- C. \$563
- D. \$1350

55. Shawn Smith, sole proprietor, had the following transactions during 2000:

• Received rental income	\$7,500
• Performed legal services for ATI Corporation in return for 10 shares of stock	\$24,000
• Recovered accounts receivable that had been written off and deducted in 1998 (did not reduce tax)	\$20,000

What amount must Mr. Smith include in gross income for 2000?

- A. \$44,000
- B. \$27,500
- C. \$31,500
- D. \$51,500

56. Mr. Robbers incurred the following entertainment expenses:

• Rental of Hospitality room displays of business products	\$1,000
• Breakfast for three business associates that preceded a substantial business discussion.	\$125
• Dinners for other business associates who took turns paying without regard to whether any business purpose was served.	\$300

What amount can Mr. Robbers deduct as an entertainment expense?

- A. \$713
- B. \$563
- C. \$213
- D. \$650

57. Jennifer Lloyd sells products to John Smith and Co. She gave the firm five packages of cashews to thank five employees for the referrals. Ms. Lloyd paid \$75 for each package.

How much can Jennifer deduct for the gifts on her tax return?

- A.** \$375
- B.** \$125
- C.** \$188
- D.** None of the above

58. On June 30, 2000, Sally, who uses the cash method of accounting, borrowed \$25,000 from a bank for use in her business. Sally was to repay the loan in one payment with \$2,000 interest on December 30, 2000. On December 30, 2000, she renewed that loan plus the interest due. The new loan was for \$27,000. What is the amount of interest expense that Sally can deduct for 2000?

- A.** \$0
- B.** \$333
- C.** \$1,000
- D.** \$2,000

59. You operate a business and file your tax return on a calendar-year basis. You bought a fire insurance policy on your building effective November 1, 2000, and paid a premium of \$1,200 for 2 years of coverage. How much can you deduct on your 2000 return?

- A.** \$1,200
- B.** \$600
- C.** \$100
- D.** \$50

60. During 2000, Mr. Jones had the following expenditures relating to commercial real estate that he owns:

- County property tax \$1,850
- State property tax \$920
- Assessment for sewer construction \$1,200
- Charges for sewer and water service \$810

What is the amount Mr. Jones can deduct as real estate taxes on his commercial real estate for 2000?

- A.** \$1,850
- B.** \$2,770
- C.** \$3,970
- D.** \$4,780

61. During 2000, Frank gave the following gifts to business clients: (NONE of the employees of the receiving companies were to receive more than ONE gift.)

- 100 pens with Frank's company name imprinted on them, valued at \$4 each, to Corporation X \$400
- 25 bottles of wine valued at \$30 each to Corporation Y \$750
- Wrapping for the 25 bottles of wine \$50
- 15 floral arrangements valued at \$25 each to Z Company \$375

The amount that Frank can deduct for business gifts in 2000 is:

- A. \$1,575
- B. \$1,450
- C. \$1,400
- D. \$1,250

62. On July 1, 2000 Susan opened a business supply store. Prior to opening the business, she incurred the following costs:

- Purchase of fixtures \$600
- Accounting fees related to setting up the business \$1,000
- Interest expense for funds borrowed prior to opening the store \$300
- Conducted a market survey \$500
- Costs to hire and train employees \$2,000
- Travel expenses to secure prospective suppliers \$2,500

What amount may Susan deduct for 2000 if she elects to amortize start-up costs using the shortest allowed amortization period?

- A. \$350
- B. \$600
- C. \$630
- D. \$690

63. Tom owns a building held for investment purposes that has an adjusted basis of \$150,000 and a fair market value of \$440,000. This building is subject to a mortgage of \$90,000. Bob would like to purchase Tom's building and makes the following offer:

- \$50,000 in cash
- Assumption of Tom's mortgage
- A building owned by Bob that he holds for investment purposes that has a fair market value of \$300,000. (The building is not subject to a mortgage).

What is Tom's taxable gain if he accepts Bob's offer and continues to hold Bob's building for investment?

- A.** \$140,000
- B.** \$150,000
- C.** \$240,000
- D.** \$290,000

64. On December 31, 2000, John sold an apartment building for \$225,000. He had purchased the building and placed it in service July 31, 1990, for \$200,000. The depreciation deducted as of December 31, 1999 was \$75,000 of which \$25,000 was excess of depreciation adjustments over depreciation using the straight-line method. In 2000, the depreciation deducted was \$7,000 of which \$2,000 was excess depreciation. What amount may John treat as a Section 1231 gain?

- A.** \$107,000
- B.** \$80,000
- C.** \$27,000
- D.** \$25,000

65. Fran's car, which she used 75% for business, was stolen in 2000. It cost \$30,000 in 1998. She had properly claimed depreciation of \$5,220. The insurance company reimbursed her \$19,000, which was the fair market value at the time of the theft. What is the amount of the business portion of Fran's theft loss?

- A.** \$3,030
- B.** \$4,030
- C.** \$4,335
- D.** \$5,780

66. A hurricane destroyed Frank's tractor in 2000. Frank had purchased the tractor for \$8,000 and had correctly deducted \$6,000 of depreciation. His adjusted basis in the tractor was \$2,000. Frank's insurance company reimbursed him \$9,000 and he spent \$7,500 for a new tractor later in the year. How much ordinary income should Frank report on his 2000 income tax return?

- A. \$0
- B. \$1,500
- C. \$6,000
- D. \$7,000

67. Farmer John, a cash basis farmer, operates a cow-calf breeding operation. The breeder cows are NOT primarily held for sale. In addition to the calves raised on his farm, John also purchases calves for resale. During 2000, John had the following acquisitions and dispositions of cattle:

• Purchase of 30 calves for resale	\$3,420
• Sale of 30 calves purchased for resale	\$6,100
• Sale of 45 calves raised by John	\$10,400
• Sale of 10 breeder cows	\$6,750
• Original cost of breeder cows	\$5,500
• Accumulated depreciation on breeder cows	\$2,860

What amount should John include in gross income on his Schedule F for 2000?

- A. \$13,080
- B. \$15,720
- C. \$16,500
- D. \$18,580

68. Jean and Mary each have a 50% interest in JM Partnership. The partnership and the partners all file calendar year tax returns. For the 1999 tax year return, JM Partnership had a \$22,000 loss. Jean's adjusted basis in her partnership interest on January 1, 1999 was \$5,000. JM Partnership reported a \$25,000 gain on its 2000 tax year return. There are no other adjustments to Jean's basis in the partnership for 1999 or 2000. There were no distributions to the partners in either year. What is the amount of partnership income or (loss) that Jean will show on her 2000 individual Form 1040?

- A. \$ 0
- B. \$1,500
- C. \$6,500
- D. \$12,500

69. Bryan had a 50% interest in a partnership and he materially participates in the partnership business. Bryan's adjusted basis in the partnership was \$40,000 at the beginning of 2000. There were no distributions to Bryan during the year. During 2000, the partnership borrowed \$180,000 from a local bank for the following reasons:

- Purchased business equipment \$120,000
- Paid off existing liabilities in full \$60,000

All of the partners are personally liable for all the partnership debts. The partnership incurred a \$300,000 loss in 2000. What amount of the loss can Bryan claim on his 2000 individual tax return?

- A.** \$150,000
- B.** \$100,000
- C.** \$40,000
- D.** \$0

70. John sold his daughter 50% of his business partnership. The partnership had a \$80,000 profit this year before deducting any compensation to the partner as a guaranteed payment. Capital is a material income-producing factor. John performed services worth \$55,000, which is reasonable compensation. The daughter performed no services. How much income will John claim on his individual tax return?

- A.** \$40,000
- B.** \$55,000
- C.** \$67,500
- D.** \$80,000

71. Jeff and his brother each own a 40% interest in J & K Partnership. Jeff also owns a 70% interest in Mega Partnership. In 1999 J & K sold a building to Mega Partnership for \$100,000. J & K's adjusted basis of the building at the time of the sale was \$110,000. In 2000 Mega sold the building for \$115,000. How much gain or (loss) will Mega recognize in 2000?

- A.** \$ 0
- B.** \$5,000
- C.** \$10,000
- D.** \$15,000

72. Which of the following would **NOT** total more than 50% ownership in T, F, & J Partnership for Ted?

- A.** Ted 40%
Ted's Wife 5%
Ted's Son 10%
Ted's Brother 45%
- B.** Ted 40%
Ted's Wife 20%
Ted's Dad's estate 10%
Ted's Brother 30%
- C.** Ted 40%
Ted's Wife 5%
Ted's Cousin 55%
- D.** Ted 40%
Ted's Wife 5%
Ted's Son's Corporation 55%

73. Under terms of the partnership agreement, Joyce is entitled to a fixed annual payment of \$20,000 and her partner \$30,000 without regard to the income of the partnership. Joyce's distributive share of the partnership income is 10%. The partnership income is \$60,000 of ordinary income after deducting the guaranteed payments. How much ordinary income from the partnership will be included on Joyce's individual income tax return?

- A.** \$6,000
- B.** \$24,000
- C.** \$26,000
- D.** \$29,000

74. Jack and Ted formed an equal partnership. Jack contributed \$10,000 cash and Ted contributed depreciable equipment that he has owned for 6 months with a fair market value of \$10,000 and an adjusted basis of \$2,000. Jack had taken \$3,000 in depreciation on the equipment before he transferred it to the partnership. What amount should Ted report as a gain as a result of this transaction?

- A.** \$0
- B.** \$3,000
- C.** \$4,000
- D.** \$8,000

75. Ed and Bob form a partnership with contributions of \$30,000 each. Bob is not a general partner. Under the partnership agreement, Ed and Bob share all partnership profits and losses equally. The partnership borrows \$70,000 to purchase depreciable equipment to be used in the partnership's business. Ed was required under the partnership agreement to pay the creditor if the partnership defaulted. Based upon these facts, what are Ed and Bob's basis in the partnership?

	<u>Ed</u>	<u>Bob</u>
A.	\$30,000	\$30,000
B.	\$65,000	\$65,000
C.	\$100,000	\$30,000
D.	\$100,000	\$100,000

76. Jane and Bill are equal partners in J & B Partnership. The partnership incurred a \$10,000 loss last year. Jane and Bill's adjusted basis in the partnership at the beginning of last year was \$2,000 each. Under the partnership agreement, Jane and Bill share all partnership profits and losses equally. The partnership borrowed \$20,000 last year to purchase depreciable equipment to be used in the partnership's business. Jane was required under the partnership agreement to pay the creditor if the partnership defaulted. Based upon these facts, what is Jane and Bill's allowable loss on last year's tax return?

	<u>Jane</u>	<u>Bill</u>
A.	\$2,000	\$2,000
B.	\$5,000	\$2,000
C.	\$5,000	\$5,000
D.	\$10,000	\$ 0

77. Jeff's interest in Partnership J & L has an adjusted basis of \$150,000. In a complete liquidation of his interest, he received the following:

	<u>Partnership's Adjusted Basis</u>	<u>Fair Market Value</u>
• Cash	\$70,000	\$70,000
• Building	\$80,000	\$90,000
• Computer	\$20,000	\$10,000
• Inventory	\$30,000	\$ 30,000

What is Jeff's basis in the building and the computer respectively?

	<u>Building</u>	<u>Computer</u>
A.	\$45,000	\$ 5,000
B.	\$80,000	\$20,000
C.	\$44,445	\$ 5,555
D.	\$40,000	\$10,000

78. Henry is a partner in XYZ Partnership. Henry's adjusted basis of his partnership interest is \$20,000, which includes his \$5,000 share of partnership liabilities. Henry sells his interest in the partnership for \$15,000. What is Henry's gain or (loss) on the sale?

- A. \$0
- B. \$5,000
- C. \$5,000
- D. \$10,000

79. All of the following items are treated as unrealized receivables in a sale of a partnership interest **except**:

- A. Certain farm land for which expenses for soil and water conservation or land clearing were deducted
- B. Property subject to recapture of depreciation under Sections 1245 and 1250
- C. Property distributed that has a fair market value in excess of the partner's basis
- D. Franchises, trademarks, or trade names

80. Partner A received inventory items with a basis of \$20,000 in complete dissolution of a partnership. Within five years, Partner A sells the entire inventory for \$30,000. What amount and type of gain should Partner A report?

- A. \$0
- B. \$10,000 short-term capital gain
- C. \$10,000 long-term capital gain
- D. \$10,000 ordinary gain

End of Part 2.