Federal Income Taxation  ACC-421-TECEP

This TECEP® test is a comprehensive coverage of the federal income tax structure as it pertains to individuals, partnerships and corporate taxpayers. Topics include classification of taxpayers, determination of gross income, exemptions, taxable income, computation of tax, special tax computations, and credits against tax. (3 s.h.)

- Test format: 20 multiple-choice questions (1 point each)
  11 computational problems (5 to 10 points each)
- Passing score: 60% (60/100 points). Your grade will be reported as CR (credit) or NC (no credit).
- Time limit: 3 hours

This test is revised annually, and is based on current tax law. You should bring your tax textbook or guide with you to refer to during this exam.

Topics on the test and their approximate distribution

1. Determination of Tax (65%)
   Key Concepts:
   Gross income; deductions from AGI; additions to AGI; itemized deductions and exemptions; capital gains and losses; tax credits; when an expense is deductible; loss; bad debts

2. Property Transactions (20%)
   Key Concepts:
   Determination of gains and losses; depreciation; cost recovery; depletion; amortization; inventory cost

3. Corporations and Partnerships (15%)
   Key Concepts:
   Basis calculations; ‘S’ and ‘C’ corporations; asset classification; short term capital; long term capital gains and losses

Outcomes assessed on the test

- Apply the steps to prepare individual taxable income and tax
- Indicate which items are included in income and which are excluded
- Recognize deductible business expenses and nonbusiness deductions
- Calculate depreciation, bad debts, losses
- Apply the rules for capital and ordinary gain and loss recognition
- Demonstrate familiarity with available individual tax credits
- Articulate the fundamental principles applied to the taxation of corporations and partnerships
Study materials

Text:

Online resource:

Although most of the test is based on material that is not related to a specific tax year, we recommend that you obtain a current tax guide. If you choose one of the texts listed, you need not read it completely. These are very comprehensive texts which deal with a wide variety of tax matters. The exam you will be taking concerns the tax affairs of individuals, partnerships and corporations.

In preparing for the test, you should develop a facility for working with your tax reference textbook or tax guide. It is not necessary for you to memorize this material since you may use your text during the test. However, you should be able to interpret the situation and apply the appropriate tax accounting treatment.

Sample questions
1. Adjusted gross income (AGI) is used in establishing limits on the following deductions, with the exception of
   a. charitable contributions
   b. casualty losses
   c. employee business expenses reimbursed by the employer
   d. medical expenses

2. An activity is presumed to be a profit making activity rather than a hobby if the
   a. activity shows a profit for any three out of five years, ending with the tax year in question
   b. activity shows a profit for any two out of five years, ending with the tax year in question
   c. taxpayer conducts the activity with some expertise
   d. taxpayer conducts the activity in a businesslike manner

3. Jared receives a $5,000 scholarship to Carter College. Jared’s expenses for tuition and books amount to $1,200 during the semester. He would report taxable income of
   a. $5,000
   b. $3,800
   c. $2,500
   d. $0

4. Which of the following is classified as passive income?
   a. Bonus income
   b. Gain on the sale of real estate
   c. Interest income
   d. Income from a limited partnership

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5. As a result of a lawsuit, Catherine was awarded $300,000 for compensatory damages due to physical personal injury and $400,000 for punitive damages. What is the taxable income resulting from this suit?
   a. $0
   b. $300,000
   c. $400,000
   d. $700,000

6. In addition to social security benefits of $6,000, Mr. and Mrs. Lopez have adjusted gross income of $36,000, tax-exempt interest of $1,000 and will file a joint return.
   Determine the taxable portion of their social security benefits.

7. Lucy purchased a rental house a few years ago for $100,000. Total depreciation to date is $35,000. In the current year, she sells the house for $155,000 and pays $10,000 selling expenses.
   Calculate Lucy’s gain on the sale.

8. Tom dies in January of the current year and leaves his wife Jeanne a $50,000 insurance policy. Jeanne elects to receive the proceeds at $10,000 per year plus interest, for five years. In the current year, she receives $12,000 ($10,000 plus $2,000 interest).
   How much must Jeanne include in her gross income?
   a. $0
   b. $2,000
   c. $10,000
   d. $12,000
Answers to sample questions

1. c  2. a  3. b  4. d  5. c

6. ($36,000 + $1,000 + $3,000) - $32,000 = $8,000 \times 0.50 = $4,000 which is subject to the ceiling limit of one-half of social security benefits, which is $3,000.

7. Amount: $(155,000 - $10,000) = $145,000
   Adjusted basis: $(100,000 - $35,000) = $65,000
   Taxable gain: $(100,000 - $35,000) = $80,000

8. b. $2,000
   - The interest paid; principal payments of insurance are not taxed, whether taken as a lump sum or over time in disbursements.