

TECEP® Test Description for ACC-421-TE

FEDERAL INCOME TAXATION

This exam is designed to evaluate students' knowledge of the basics of federal income taxation of individuals. This exam covers the basic tax calculations, filing status, gross income inclusions and exclusions, gain and loss recognition, business and personal deductions, tax credits, and filing requirements. The exam also assesses knowledge about the taxation of partnerships as well as that of corporations and special "S corporations." The exam evaluates students' knowledge of federal income tax structure as it pertains to individuals, partnerships, and corporations. (3 credits)

- **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.

You are permitted to use a calculator (scientific, graphing, or financial) but **may not** use a calculator on a phone, PDA, or any similar device. The use of **blank** scratch paper for doing math calculations is permitted during online test administrations.

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
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TOPICS ON THE TEST AND THEIR APPROXIMATE DISTRIBUTION

The table below indicates the main topics covered by this exam and the approximate percentage of the exam devoted to each main topic. Under the main topic heading is a list of related—but more specific—topics. It is important to review these topics to determine how much prior knowledge you have and/or how much additional study is necessary.

Topic	Percentage
Determination of Tax <ul style="list-style-type: none">• 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	65%
Property Transactions <ul style="list-style-type: none">• Determination of gains and losses• Depreciation• Cost recovery• Depletion• Amortization• Inventory cost	20%
Corporations and Partnerships <ul style="list-style-type: none">• Basis calculations• 'S' and 'C' corporations• Asset classification• Short term capital• Long term capital gains and losses	15%

STUDY MATERIALS

Below is a list of recommended study materials to help prepare you for your exam. Most textbooks in this subject include the topics listed above and will prepare you for the test. If you choose another text, be sure to compare its table of contents against the topic list to make sure all topics are covered.



Note: 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.

Title
<i>South-western federal taxation [current year]: Individual income taxes.</i> Hoffman, et al. Current edition. Boston, MA: Cengage Learning.
<i>J. K. Lasser's your income tax (current year): for preparing your (current year) tax return.</i> J.K. Lasser Institute. Current edition. Hoboken, NJ: John Wiley & Sons, Inc.
Federal tax code. " Tax code, regulations and official guidance. " (2018). U.S. Treasury.
Financial Council Incorporate. " Tax Resources " (2018).

SAMPLE QUESTIONS

The questions below are designed to help you study for your TECEP. Answering these questions does not guarantee a passing score on your exam.

Please note that the questions below **will not** appear on your exam.

- Adjusted gross income (AGI) is used in establishing limits on the following deductions, with the exception of
 - charitable contributions
 - casualty losses
 - employee business expenses reimbursed by the employer
 - medical expenses
- An activity is presumed to be a profit making activity rather than a hobby if the
 - activity shows a profit for any three out of five years, ending with the tax year in question
 - activity shows a profit for any two out of five years, ending with the tax year in question
 - taxpayer conducts the activity with some expertise
 - 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
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. $(\$36,000 + \$1,000 + \$3,000) - \$32,000 = \$8,000 \times .50 = \$4,000$ which is subject to the ceiling limit of one-half of social security benefits, which is \$3,000.

7.

Amount realized	$(\$155,000 - \$10,000) =$	\$145,000
Adjusted basis	$(\$100,000 - \$35,000) =$	<u>65,000</u>
Taxable gain		80,000

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

