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-

According to the AICPA Code of Professional Conduct, in which of the following circumstances may a CPA serve on a company's board of directors?

a. The CPA audits a bank to which the company has applied for financing, and board approval is required for said financing to occur.

b. The CPA is asked by the company to test the internal controls of the company and offers compensation to the CPA for said services.

c. The CPA does **not** audit the company and has **no** other business connection with the company.

d. The CPA performs attestation services for a nonpublic company.

**Explanation**

Choice "c" is correct.
2. CPA-
How many audits of public companies per year does a CPA firm that is registered with the Public Company Accounting Oversight Board (PCAOB) have to perform before it receives an annual inspection from the PCAOB?

a. One audit.
b. More than 10 audits.
c. More than 50 audits.
d. More than 100 audits.

Explanation
Choice “d” is correct.
3. CPA-
What defense must an accountant establish to be absolved from civil liability under Section 18 of the Securities Exchange Act of 1934 for false or misleading statements made in reports or documents filed under the Act?

a. Lack of gross negligence.
b. Exercise of due care.
c. Good faith and lack of knowledge of the statement's falsity.
d. Lack of privity with an injured party.

Explanation
Choice "c" is correct.
4. **CPA**

In which of the following situations is there a violation of client confidentiality under the AICPA Code of Professional Conduct?

a. A member discloses confidential client information to a court in connection with arbitration proceedings relating to the client.

b. A member discloses confidential client information to a professional liability insurance carrier after learning of a potential claim against the member.

c. A member whose practice is primarily bankruptcy discloses a client's name.

d. A member uses a records retention agency to store clients' records that contain confidential client information.

**Explanation**

Choice "c" is correct.
5. **CPA**-

On December 1, Gem orally contracted with Mason for Mason to manage Gem's restaurant for one year starting the following January 1. They agreed that Gem would pay Mason $40,000 and that Mason would be allowed to continue to work for Gem if "everything worked out." On June 1, Mason quit to take a better paying job, alleging that the contract violated the statute of frauds. What will be the outcome of a suit by Gem for breach of contract?

a. Gem will win because the contract was executory.
b. Gem will win because the contract was for services not goods.
c. Gem will lose because the contract could not be performed within one year.
d. Gem will lose because the contract required payment of more than $500.

**Explanation**

Choice "c" is correct.
6. CPA-
Which of the following bonds are an obligation of a surety?

a. Convertible bonds.
b. Debenture bonds.
c. Municipal bonds.
d. Official bonds.

Explanation
Choice "d" is correct.
7. CPA-
According to the Securities Act of 1933, which of the following statements is correct regarding an issuer of securities?

a. All securities issuers must provide potential investors with a prospectus containing specified information.
b. An issuer is permitted to advertise an initial offering of securities only through distribution of the prospectus.
c. All securities issuers must register the securities offering with the Securities and Exchange Commission (SEC).
d. If an issuer sells a security and fails to meet certain disclosure requirements, the purchaser may sell it back to the issuer and recover the price paid.

Explanation
Choice "d" is correct.
8. CPA-
Which of the following circumstances best describes a landlord's constructive eviction of a tenant who has a written lease for the property?

a. The landlord changes the lock and refuses to give the tenant a new key.
b. The landlord starts a legal proceeding against the tenant for failure to pay rent.
c. The landlord sues the tenant because the tenant complained to a government agency about the condition of the premises.
d. The landlord refuses to provide utilities to the tenant.

Explanation
Choice "d" is correct.
9. CPA-
A calendar-year individual filed an income tax return on April 1. This return can be amended no later than:

a. Four months and 15 days after the end of the calendar year.
b. Ten months and 15 days after the end of the calendar year.
c. Three years, three months, and 15 days after the end of the calendar year.
d. Three years after the return was filed.

Explanation
Choice "c" is correct.
10. CPA-
In the absence of an election to adopt an annual accounting period, the required tax year for a partnership is:

a. A tax year that results in the greatest aggregate deferral of income.
b. A calendar year.
c. A tax year of one or more partners with a more than 50% interest in profits and capital.
d. A tax year of a principal partner having a 10% or greater interest.

Explanation
Choice "c" is correct.
11. CPA-
In the current year Tatum exchanged farmland for an office building. The farmland had a basis of $250,000, a fair market value (FMV) of $400,000, and was encumbered by a $120,000 mortgage. The office building had an FMV of $350,000 and was encumbered by a $70,000 mortgage. Each party assumed the other's mortgage. What is the amount of Tatum's recognized gain?

a. $0  
b. $50,000  
c. $100,000  
d. $150,000

Explanation
Choice "b" is correct.
12. CPA-
Danielson invested $2,000,000 in DEC, a qualified small business corporation. Six years later, Danielson sold all of the DEC stock for $16,000,000, and purchased an office building with the proceeds. Danielson had not previously excluded any gain on the sale of small business stock. What is Danielson's taxable gain after the exclusion?

a. $0
b. $6,000,000
c. $7,000,000
d. $9,000,000

Explanation
Choice "c" is correct.
13. CPA-
Robbe, a cash basis single taxpayer, reported $50,000 of adjusted gross income last year and claimed itemized deductions of $5,500, consisting solely of $5,500 of state income taxes paid last year. Robbe's itemized deduction amount, which exceeded the standard deduction available to single taxpayers for last year by $1,150, was fully deductible and it was not subject to any limitations or phase-outs. In the current year, Robbe received a $1,500 state tax refund relating to the prior year. What is the proper treatment of the state tax refund?

a. Include none of the refund in income in the current year.
b. Include $1,150 in income in the current year.
c. Include $1,500 in income in the current year.
d. Amend the prior-year's return and reduce the claimed itemized deductions for that year.

Explanation
Choice "b" is correct.
14. CPA-
Lane, a single taxpayer, received $160,000 in salary, $15,000 in income from an S Corporation in which Lane does not materially participate, and a $35,000 passive loss from a real estate rental activity in which Lane materially participated. Lane’s modified adjusted gross income was $165,000. What amount of the real estate rental activity loss was deductible?

a. $0  
b. $15,000  
c. $25,000  
d. $35,000

Explanation
Choice “b” is correct.
15. CPA-
Which of the following disqualifies an individual from the earned income credit?

a. The taxpayer's qualifying child is a 17-year-old grandchild.
b. The taxpayer has earned income of $5,000.
c. The taxpayer's five-year-old child lived in the taxpayer's home for only eight months.
d. The taxpayer has a filing status of married filing separately.

Explanation
Choice "d" is correct.
16. CPA-
Which of the following can be an advantage of a limited liability company over an S corporation?

a. Double taxation of profits is avoided.
b. Owners receive limited liability protection.
c. Appreciated property can be distributed tax-free to an owner.
d. Incentive stock options can be used to compensate owners.

Explanation
Choice "c" is correct.
17. CPA-

Quigley, Roberk, and Storm form a corporation. Quigley exchanges $25,000 of legal fees for 30 shares of stock. Roberk exchanges land with a basis of $10,000 and a fair market value of $100,000 for 60 shares of stock. Storm exchanges $10,000 cash for 10 shares of stock. What amount of income should each shareholder recognize?

<table>
<thead>
<tr>
<th></th>
<th>Quigley</th>
<th>Roberk</th>
<th>Storm</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>b.</td>
<td>$25,000</td>
<td>$90,000</td>
<td>$0</td>
</tr>
<tr>
<td>c.</td>
<td>$25,000</td>
<td>$90,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>d.</td>
<td>$0</td>
<td>$90,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Explanation**

Choice "b" is correct.
18. CPA-

Tap, a calendar-year S corporation, reported the following items of income and expense in the current year:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$44,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>Long-term capital loss</td>
<td>6,000</td>
</tr>
<tr>
<td>Charitable contributions</td>
<td>1,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>4,000</td>
</tr>
</tbody>
</table>

What is the amount of Tap's ordinary income?

a. $13,000
b. $19,000
c. $20,000
d. $24,000

Explanation

Choice "c" is correct.
19. CPA-

During the current year, a trust reports the following information:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>$10,000</td>
</tr>
<tr>
<td>Interest from corporate bonds</td>
<td>12,000</td>
</tr>
<tr>
<td>Tax-exempt interest from state bonds</td>
<td>4,000</td>
</tr>
<tr>
<td>Capital gain (allocated to corpus)</td>
<td>2,000</td>
</tr>
<tr>
<td>Trustee fee (allocated to corpus)</td>
<td>6,000</td>
</tr>
</tbody>
</table>

What is the trust's accounting income?

a. $22,000
b. $26,000
c. $28,000
d. $34,000

**Explanation**

Choice "b" is correct.
20. CPA-
Mackenzie is the grantor of a trust over which Mackenzie has retained a discretionary power to receive income. Kelly, Mackenzie's child, receives all taxable income from the trust unless Mackenzie exercises the discretionary power. To whom is the income earned by the trust taxable?

a. To the trust to the extent it remains in the trust.
b. To Mackenzie because he has retained a discretionary power.
c. To Kelly as the beneficiary of the trust.
d. To Kelly and Mackenzie in proportion to the distributions paid to them from the trust.

Explanation
Choice "b" is correct.
21. **CPA**-

Smith, CPA, is a partner of Johnson Accounting Firm. Johnson audited the books of Hometown Bank. Smith's independence would be impaired under which of the following circumstances?

a. Smith is a director of Hometown Bank.
b. Smith has a collateralized automobile loan with Hometown Bank.
c. Smith had an account with Hometown Bank two years ago.
d. Smith and a Hometown Bank board member belong to the same church.

**Explanation**

Choice "a" is correct.
22. CPA-
Which of the following is a correct statement about the circumstances under which a CPA firm may or may not disclose the names of its clients without the clients' express permission?

a. A CPA firm may disclose this information if the practice is limited to bankruptcy matters, so that prospective clients with similar concerns will be able to contact current clients.

b. A CPA firm may disclose this information if the practice is limited to performing asset valuations in anticipation of mergers and acquisitions.

c. A CPA firm may disclose this information unless disclosure would suggest that the client may be experiencing financial difficulties.

d. A CPA firm may not disclose this information because the identity of its clients is confidential information.

Explanation
Choice "c" is correct.
23. CPA-
Lawson, a CPA, discovers material noncompliance with a specific Internal Revenue Code (IRC) requirement in the prior-year return of a new client. Which of the following actions should Lawson take?

a. Wait for the statute of limitations to expire.
b. Discuss the requirements of the IRC with the client and recommend that client amend the return.
c. Contact the IRS and discuss courses of action.
d. Contact the prior CPA and discuss the client's exposure.

Explanation
Choice "b" is correct.
24. CPA-
Able, CPA, was engaged by Wedge Corp. to audit Wedge's financial statements. Wedge intended to use the audit report to obtain a $10 million loan from Care Bank. Able and Wedge's president agreed that Able would give an unqualified opinion on Wedge's financial statements in the audit report even though there were material misstatements in the financial statements. Care refused to make the loan. Wedge then gave the audit report to Ranch to encourage Ranch to purchase $10 million worth of Wedge common stock. Ranch reviewed the audit report and relied on it to purchase the stock. After the purchase, Able's agreement with Wedge's president was revealed. As a result, Wedge stock lost half its value and Ranch sued Able for fraud. What will be the result of Ranch's suit?

a. Ranch will win because Able intentionally gave an unqualified opinion on Wedge's materially misstated financial statements.

b. Ranch will win because Able is strictly liable for errors made in auditing Wedge's financial statements.

c. Ranch will lose because Ranch is not a foreseen user of Able's audit report.

d. Ranch will lose because Ranch is not in privity with Able.

Explanation
Choice "a" is correct.
25. CPA-
Which of the following terms best describes the relationship between a corporation and the CPA it hires to audit corporate books?

a. Employer and employee.
b. Employer and independent contractor.
c. Master and servant.
d. Employer and principal.

Explanation
Choice “b” is correct.
26. CPA-
Card communicated an offer to sell Card's stereo to Bend for $250. Which of the following statements is correct regarding the effect of the communication of the offer?

a. Bend should immediately accept or reject the offer to avoid liability to Card.
b. Card is not obligated to sell the stereo to Bend until Bend accepts the offer.
c. Card is required to mitigate any loss Card would sustain in the event Bend rejects the offer.
d. Bend may not reject the offer for a reasonable period of time.

Explanation
Choice "b" is correct.
27. CPA-
Worker’s compensation benefits are available to which of the following parties?

a. Only those employees injured while working on workplace premises.
b. Only those employees injured while working within the scope of employment.
c. All agents injured while commuting to and from work.
d. All agents injured while using the employer’s automobile for personal use.

Explanation
Choice “b” is correct.
28. **CPA-**

Under the Negotiable Instruments Article of the UCC, which of the following statements is correct regarding a check?

a. A check is a promise to pay money.
b. A check is an order to pay money.
c. A check does **not** need to be payable on demand.
d. A check does **not** need to be drawn on a bank.

**Explanation**

Choice "b" is correct.
29. CPA-
A tax preparer has advised a company to take a position on its tax return. The tax preparer believes that there is a 75% possibility that the position will be sustained if audited by the IRS. If the position is not sustained, an accuracy-related penalty and a late-payment penalty would apply. What is the tax preparer's responsibility regarding disclosure of the penalty to the company?

a. The tax preparer is responsible for disclosing both penalties to the company.
b. The tax preparer is responsible for disclosing only the accuracy-related penalty to the company.
c. The tax preparer is responsible for disclosing only the late-payment penalty to the company.
d. The tax preparer has no responsibility for disclosing any potential penalties to the company, because the position will probably be sustained on audit.

Explanation
Choice "a" is correct.
30. CPA-
Sackett Corporation had a beginning inventory of 10,000 units, which were purchased in the prior year as follows:

<table>
<thead>
<tr>
<th>Units</th>
<th>Unit Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>4,000 $2.00</td>
</tr>
<tr>
<td>October</td>
<td>4,000 $2.10</td>
</tr>
<tr>
<td>December</td>
<td>2,000 $2.30</td>
</tr>
</tbody>
</table>

In the current year, Sackett purchases an additional 12,000 units (7,000 in June at $2.50 and 5,000 in November at $2.70) and sells 16,000 units. Using the FIFO method, what is Sackett's ending inventory?

a. $12,200 (4,000 @ $2.00 and 2,000 @ $2.10)
b. $13,000 (4,000 @ $2.10 and 2,000 @ $2.30)
c. $15,600 (6,000 @ $2.60 - average of $2.50 and $2.70)
d. $16,000 (5,000 @ $2.70 and 1,000 @ $2.50)

Explanation
Choice "d" is correct.
31. CPA-
Terry, a taxpayer, purchased stock for $12,000. Later, Terry sold the stock to a relative for $8,000. What amount is the relative's gain or loss?

a. $2,000 loss.
b. $0
c. $2,000 gain.
d. $4,000 gain.

Explanation
Choice "b" is correct.
32. CPA-

Winkler, a CPA, provided accounting services to a client, Thompson. On December 15 of the same year, Thompson gave Winkler 100 shares of Foster Corp. as compensation for services. The adjusted basis of the stock was $4,000, and its fair market value at the time of transfer was $5,000. Two months later, Winkler sold the stock on February 15 for $7,500. What is the amount that Winkler should recognize as gain on the sale of stock?

a. $0  
b. $1,000  
c. $2,500  
d. $5,000

Explanation

Choice "c" is correct.
33. CPA-
Which of the following should be included when determining adjusted gross income?
   a. Alimony received.
   b. Compensation for injuries or sickness.
   c. Rental value of parsonages.
   d. Tuition scholarship.

Explanation
Choice "a" is correct.
34. CPA-
An individual starts paying student loan interest in the current year. How many years may the individual deduct a portion of the student loan interest?

a. Current year only.
b. Five years.
c. Ten years.
d. Duration of time that interest is paid.

Explanation
Choice "d" is correct.
35. CPA-
A taxpayer's spouse dies in August of the current year. Which of the following is the taxpayer's filing status for the current year?

a. Single.
b. Qualified widow(er).
c. Head of household.
d. Married filing jointly.

Explanation
Choice "d" is correct.
36. CPA-
Which of the following entities must pay taxes for federal income tax purposes?

a. General partnership.
b. Limited partnership.
c. Joint venture.
d. C corporation.

Explanation
Choice "d" is correct.
37. **CPA-**

Quail, Inc. manufactures consumer products and sells them to distributors. Quail advertises its products to increase sales and enhance the value of its trade name. What is the appropriate tax treatment for the advertising costs?

a. Amortize the costs over 15 years.

b. Amortize the costs over 36 months.

c. Amortize the costs over 60 months.

d. Deduct the costs currently as ordinary and necessary business expenses.

**Explanation**

Choice "d" is correct.
38. CPA-
On June 30, Gold and Silver are calendar-year C corporations. The corporations have merged, with Gold as a subsidiary of Silver. Silver owns 85% of Gold's voting stock and fair market value (FMV). Which of the following tax return filings would be appropriate for the two companies?

a. Two separate returns, because Silver owns at least 80% of both the voting stock and FMV of Gold.
b. Two separate returns, because the merger took place before the close of the second quarter.
c. A consolidated return, because Silver owns at least 80% of both the voting stock and FMV of Gold.
d. A consolidated return, because the merger took place before the close of the second quarter.

Explanation
Choice "c" is correct.
39. CPA-
Stone Corp. has been an S corporation since inception. In each of Year 1, Year 2, and Year 3, Stone made distributions in excess of each shareholder's basis. Which of the following statements is correct concerning these three years?

a. In Year 1 and Year 2 only, the excess distributions are taxed as capital gain.
b. In Year 1 only, the excess distributions are tax free.
c. In Year 3 only, the excess distributions are taxed as capital gain.
d. In all three years, the excess distributions are taxed as capital gains.

Explanation
Choice "d" is correct.
40. CPA-

Brown, a 50% partner in Brown & White, received a distribution of $12,500 in the current year. The partnership’s income for the year was $25,000. What is the character of the payment that Brown received?

a. Partial liquidation.
b. Liquidating distribution.
c. Disproportionate distribution.
d. Current distribution.

Explanation

Choice "d" is correct.