# <u>2009 SOLE PROPRIETOR QUIZ</u>

1. Which of the following is **<u>not</u>** true for sole proprietorship:
   a) Has no existence apart from sole owner
   b) Ownership interest ceases upon death of owner
   c) Owner takes risk of business to extent of all business assets only
   d) Owner takes risk of personal assets even if NOT used in the business.

2. T F There is never any need for an Employer Identification number for a sole proprietorship.

3. T F An EIN application SS4 can only be filed by mail.

4. T F A single entry bookkeeping system is not recognized by IRS as an approved method.

5. T F Double entry bookkeeping system is self-balancing.

6. T F When a separate business bank account is maintained, IRS will assume that all deposits are income.

7. T F If taxpayer uses LIFO method of accounting, records must be kept indefinitely.

8. T F A copy of the actual tax return as filed or amended need only be retained for 3 years after due or filed date.

9. If you elect a tax year that always ends on the last Monday in March, your tax year will end (for 2009):
   a) On March 29, 2009
   b) On March 28, 2009
   c) On March 9, 2009

10. If you elect a tax year ending on the Friday nearest the end of January (for 2009) your tax year will end on:
    a) February 1, 2009
    b) January 29, 2009
    c) January 31, 2009

11. T F If you now use a calendar year and want to change to a 52-53 week year ending on the Friday closest to December 31, prior approval is **<u>not</u>** required from IRS.

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12. T F A husband and wife, filing a joint return, may never have separate accounting periods.

13. T F To get approval to change accounting period from IRS, a form must be filed timely **and** a fee must be paid.

14. T F No single accounting **method** is required of all taxpayers

15. T F You may change accounting **method** each year.

16. T F A sole proprietor chooses accounting method when he files his first business tax return.

17. T F If inventories are necessary in accounting for income, then must use the accrual method for all business accounting.

18. T F If interest is credited to your business bank account in December but you do not enter it into the checkbook and do not use it, you do not have to report it in the year credited.

19. You are a calendar year cash basis taxpayer and you pay $1,000 for a business insurance policy that is effective July 1, of current year for a one year period. You may:
    - a) deduct the entire amount paid in year paid
    - b) deduct $500 in current year and $500 in next year
    - c) choose which year you wish to deduct the $1,000 in

20. You are a calendar year accrual basis taxpayer. You sold a lawnmower on December 28. You billed the customer in the first week of January of next year but did not receive payment until February of next year. You must report the income:
    - a) in current year (year sold)
    - b) in January (when billed)
    - c) in February (when actually received payment)

21. T F You are an accrual basis calendar year taxpayer and in December, you buy office supplies. You receive the office supplies and are billed for them in December but do not pay for them until January. You can **not** deduct the expense in December because you did use them in December.

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22. "Related" persons (for sole proprietor) include:
    a) Step Brothers and Sisters
    b) Half Brothers and Sisters
    c) Foster Brothers and Sisters

23. T F A charitable organization is a "related" party to a sole proprietor if the sole proprietor's spouse controls the charitable organization.

24. T F A sole proprietor is "related" to a corporation if the sole proprietor's son owns 50% of the corporation's stock

25. T F If **required** to change from cash to accrual method, you are not required to have **prior** approval from IRS to make the change and you do not have to file form 3115 and pay user fee.

26. T F Form 3115 and user fees are due 90 days before end of year in which you wish to make the change.

27. T F Jackie incurred legal and travel expenses in an attempt to purchase specific going business's assets. He was unsuccessful in his attempt to purchase the business. He may deduct the expenses as ordinary business expenses.

28. T F Section 197 amortizable assets are amortized over the lesser of their life, or 15 years

29. Which of the following are **not** included in 197 assets:
    a) Work force in place
    b) Information base
    c) Sports franchise
    d) Trademarks/Tradenames

30. T F Computer software purchased off the shelf, available to general public, subject to nonexclusive license, and not substantially modified is amortized over 5 years

31. T F Software purchased **with** a computer as part of it's cost is generally depreciated along with the computer over a 10 year recovery period.

32. T F Tax software purchased annually is generally a current deduction in year purchased.

# SOLE PROPRIETOR QUIZ

33. Mr. Smith purchased a going business including the following intangible assets (all are 197 assets).

| | |
|---|---|
| Goodwill . . . . . . . . . | $110,000 |
| Mailing list . . . . . . . | $ 60,000 |
| Operating license . . . . | $ 20,000 |
| Total 197 intangibles. . . | $190,000 |

He already has an operating license so he immediately sells the acquired license for $8,000. He will:

a) Report a loss of $12,000 on current return
b) Allocate ½ of the $20,000 basis of the license each to Goodwill and Mailing List.
c) Allocate the $20,000 to Goodwill 65% and Mailing List 35%

34. T F Cost of building a private road on business property is a currently deductible expense.

35. T F Cost of maintaining a private road on business property is a currently deductible expense.

36. T F You may **elect** to capitalize or deduct certain taxes and interest paid to carry or develop real property.

37. T F You may elect to deduct up to $20,000 of cost of removing barriers to disabled and elderly people

38. You work full time as a mechanical engineer for an aircraft manufacturer. During your nonworking hours, you are an artist. Income received from sale of your paintings is (assume entered into for profit)

a) Misc. income on form 1040
b) Business income
c) Non taxable income

39. You rent out your property and the rental agreement directs the tenant to pay the rent to your son. You:

a) do not have income - the income is your son's
b) report the income as rental income on your return
c) report the income on your return and deduct it as expense paid to your son

40. T F You perform legal services for a client, a small corporation. In payment you receive shares of stock in the corporation. You must include the fair market value of the stock as income in the year you provided the services.

41. T F Both you and a house painter are members of a barter club, an organization that each year gives its members a directory of members and services each member provides. Members get in touch with other members directly and bargain for the value of the services to be performed. In return for the accounting services you provided for the house painter's business, the house painter painted your home. The fair market value of your accounting services must be included in your income.

42. T F You are a member of barter club that uses credit units to credit or debit members accounts for goods or services provided or received. As soon as the units are credited to a member's account, the member may use them to buy goods or services or may sell or transfer the units to other members. The value of the credit units received must be included in your income when you use them or transfer them.

43. T F If, in #42, your employee uses the credits on your account, you can deduct the value of the credits as a fringe benefit to the employee, not subject to withholding or payroll taxes.

44. T F You are a cash method taxpayer. You join a barter club and agree to provide specific services to any member for a specified number of hours. Each member has access to a directory that lists the members of the club and the services available. You are not required to provide services unless requested by another member, but you may use as many of the offered services as you wish without paying a fee. You must include the fair market value of any services you receive from club members in income when you receive them even if you have not provided any services to club members.

45. You received a work of art created by an artist/client of yours in return for supplies you furnished to the artist without payment.

    a) Fair market value of art work is included in your income and no deduction for supplies
    b) Fair market value of art work LESS cost of supplies is included in your gross income
    c) Fair market value of art work is included in your gross income and a deduction is taken for cost of supplies.
    d) You deduct cost of supplies only.

46. T F Dividends are never considered business income

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47. T F Unless debtor is insolvent, a transfer of property to a creditor of which debtor's cost was less than the amount of the debt, will result in income to the debtor.

48. T F Kickbacks, if received in course of trade or business, are business income in most cases.

49. John had gross income of $8,000 from business and a bad debt deduction of $300. Other allowable deductions came to $7,700. In a later year, John recovered all of the $300 bad debt. He must:

    a) reduce bad debt expense in the year it is received
    b) report the $300 as income in year received
    c) amend the return and eliminate bad debt deduction

50. Joe Smith, a sole proprietor, had the same income and deductions as John (in #49). He had personal exemptions of $4,100. If he recovers the bad debt in the following year (or later), he will:

    a) reduce bad debt expense in year of recovery
    b) **Not** report the recovery in income
    c) report the recovery in income in year received.

51. T F Consignments of merchandise to others results in income when it is consigned out and leaves your business location.

52. T F Merchandise received from others on consignment is never included in your inventory.

53. T F Cash discounts received from a supplier must always be accounted for by reduction of cost of sales (inventory)

54. T F Trade discounts are generally income to the seller.

55. Jimmy Jacobs, a service contractor, was entitled to receive a $5,000 payment on a contract in December, He was advised in December that the payment was available but he requested that the payment not be made until January of the next year. He must:

    a) Include the income in December
    b) Include the income in January
    c) Make a written election on his return and include the income whichever year is best for him.

56. T F Your client operates a service station. On December 31 he closed the station but did not deposit the funds from the days sale until January 2. You will report the income in December

# SOLE PROPRIETOR QUIZ

57. You hire a salesman to sell and deliver merchandise to clients in various locations. He delivers merchandise on December 20th, collects for the merchandise for you but not return to your office and deliver the money to you until January 15th. You

a) Include the funds in income in December
b) Include the funds in income in January
c) Only include the funds in income in December if you are on accrual basis

58. You manufacture, sell and service washing machines. In current year you received payment for a one year contingent service contract on a machine you sold. You offer machines for sale without the contingent service contracts in your normal course of business. You:

a) Must report the income in the current year
b) Must report the income in the following year
c) May elect to postpone reporting of income until following year.

59. T F You are an appliance repairman. In current year you receive payments for one year contracts under which you agree to repair or replace certain Parts that fail to function properly in certain appliances that were sold To unrelated parties. You may include these payments in gross income as you earn them over the period of the contract.

60. T F Your client, Susan, owns a dance studio. On November 2, 2009, she received payment for a one year contract beginning on that date and providing for 48 one - hour lessons. She gave eight lessons in 2009. She must include one-sixth of the payments in 2009 and the balance of the payment in 2009 even if she cannot give all of the lessons in 2009.

61. Tom is a retail store operator who uses the accrual method of accounting under which he accounts for sales of goods when they are shipped. This method is used for both tax and reporting purposes. Advance payments are:

a) Included in income only in year payment received
b) Included in income only in year goods shipped
c) May be included in either year payment received ***<u>or</u>*** in year goods shipped.

62. Jackson is a calendar year taxpayer who manufacturers household furniture. He uses the accrual method of accounting. Income is accrued for accounting purposes when furniture is shipped. For tax purposes, he does not accrue income until furniture has been delivered and accepted. In 2009, he received an advance payment of $8,000 from a customer for an order that was a total price of $20,000. He shipped the furniture in December 2009, but it was not delivered and accepted until the following January 2010. He will report, for tax purposes.
a) $8,000 in December 2009 and $12,000 in January 2010
b) $20,000 in December 2009
c. $20,000 in January 2010

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63. T F If gift certificates are sold by you and you can not identify the merchandise that the certificate will be exchanged for, you may postpone including the payment in income indefinitely until the certificate is surrendered.

64. Inventories are required at beginning and end of each tax year for:

a) Manufacturers
b) Wholesalers
c) Retailers
d) Every business that makes, buys or sells goods, to produce income
e) All of the above
f) a, b, and c only

65. T F Any difference between ending inventory of prior year and beginning inventory of current year must be explained on the tax return.

66. Your client is a calendar year taxpayer who uses the accrual method of accounting. In 2009 he contributed property from his inventory to his church. The property had a fair market value of $600. The closing inventory at the end of 2009 had included cost of this property at $400. In 2009, he deducted $50 of administrative and other costs attributable to the property as a business expense. The 2009 charitable deduction allowed is:

a) $600
b) $200
c) $400

67. In the above example, your client must:

a) Adjust beginning inventory for 2009 by the charitable deduction.
b) Make no changes to inventory or purchases
c) Adjust purchases for current year by reducing them by the charitable deduction.

68. If, in #66 question, the contributed property had been **<u>acquired</u>** in 2009, and $50 of administration expenses incurred in 2009:

a) $400 cost would be included in cost of sales and the $50 as expenses and no deduction for the contribution
b) $400 would be deducted from purchases and $50 included as expenses and no deduction for the contribution
c) $600 FMV of the property would be allowed as a contribution but the $400 cost and 450 expenses must be deducted from purchases and expenses.

69. T F To adopt LIFO method of inventory identification, you must file form 970 with Internal Revenue Service within one month prior to the year in which you wish to use LIFO.

70. T F Under lower of cost or market rules, but not under the specific cost method, unsalable goods are valued at market prices less costs of disposition.

71. T F You may **not** elect to treat all or almost all of indirect production costs as period costs currently deductible.

72. T F Sale of **entire** inventory is reported as capital asset on schedule D of tax return

73. T F Uniform capitalization rules require capitalization of direct costs only.

74. T F Films, sound recordings, video tapes, books, artwork, photographs or similar property in production are subject to uniform capitalization rules.

75. T F All personal property acquired for resale is subject to Uniform Capitalization Rules.

76. T F Very Able operates a retail business. On the average, he marks up his merchandise so that he will realize a gross profit of 33 1/3% on its sales. Net receipts shown on his income statement are $300,000. Cost of goods on his statement is $200,000. It appears that Very Able has properly entered his sales, cost of goods sold and inventory.

77. Absolutely Perfect operates a retail business. He hires an employee who is eligible for work opportunity credit (jobs credit). Mr Perfect takes the credit on his federal return. For **Oregon**, he must

a) Add the amount of the credit taken
b) Subtract the amount of the credit taken
c) Take a credit on his Oregon return.

78. T F Wages related to merchandise manufactured for resale are added to cost of goods sold and **not** reported as wages on page one of Schedule C

79. Sneaky Pete has paid his children (ages 3 and 4) wages of $1,000 per month ($500 each) this year. He has a window washing business. He properly reported the wages on payroll reports, and withheld the proper payroll taxes.

a) He may deduct the wages and employer taxes on his business ss tax return Schedule C
b) He may **not** deduct any of the payments since the children are not old enough to have performed any services
c) He may deduct the wages only, not the payroll taxes

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80. T F If Sneaky Pete had paid is **wife** the wages and she worked right along beside him in washing windows, he could take the deduction for all wages and taxes.

81. You informed Sneaky Pete that he was not going to get away with deducting wages to his small children and he said he would just pay his wife. Pete makes $40,000 per year in this business and he spends approximately 55 hours per week. His wife has a full time job as a secretary and, of course, two children to care for. She does not pay the bills for the business and they hire a bookkeeper. Occasionally, she answers the phone if she is home when a customer calls. Generally, they have an answering service. Pete may:

    a. **not** pay his wife any salary and take a business deduction for it and related taxes
    b. pay her any amount he decides to since they file a joint return
    c. only pay her a very nominal amount as a deductible salary.

82. T F Cash bonuses for a job well done can not be deducted as gifts and must be reported as wages subject to payroll taxes and withholding.

83. T F Christmas turkey gifts to employees must be included in wages at Fair Market Value of the turkey

84. T F Gifts are deductible by employer and not taxable to employee if they are less than $25 each (annual limit) regardless of whether paid in cash or merchandise.

85. T F A loan to an employee that is substantiated by a note with an adequate interest rate, and is reasonably expected to be paid back is not considered wages.

86. T F If no services are performed by an individual, a loan to that persona can **never** be considered wages.

87. T F Cash basis taxpayer can deduct employee vacation pay only when it is actually paid to the employee.

88. Poor Taxpayer is an accrual basis taxpayer. He can not afford to pay wages to his father who works for him. He has set up a loan payable to his father for unpaid net wages. He:

    a) Must report the wages to his father and give his father a W2 for the year they were earned and may deduct these wages from income
    b) Can not include the wages in his father's income (since payroll is **always** reported on a cash basis to IRS and social security dept) but may deduct them on his accrual tax return.
    c) Can not include wages in his father's income and can **not** deduct these wages on his tax return.

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89. T F If Poor Taxpayer's father were on the accrual basis also, the answer in #88 would be the same.

90. T F Micky Mouse is self employed, sole proprietor in the construction business of building cabinets. He is on the accrual basis. He hired a corporation to install the cabinets. His brother owned 65% of the corporate stock at the time Micky became indebted to the corporation on February 1. On April 1 of that year, Micky's brother sold his stock in the corporation. Micky finally got his bill paid in January of the next year. He may **not** deduct the installation expenses in the year the services were performed.

91. T F To exclude meals and lodging furnished to employees from the wages of the employee, an employer must pay for the meal. It does not matter what the reason is for paying for the meal.

92. T F A sole proprietor may, by setting up a program for his employees that meets certain requirements, pay for educational expenses up to $5,250 annually of which none of this amount is included in wages of the employee.

93. T F Maximum exclusion from employee income for dependent care assistance programs if $5,000 per year for each employee regardless of employee's filing status.

94. T F Payments made by an employer to a relative of an employee for child care do **not** qualify for exclusion under the dependent care assistance program.

95. T F Moving expenses paid to an employee can be excluded from wages if the employer can reasonably believe that the employee will be allowed to deduct the moving expenses.

96. T F Sole proprietors may set a group legal expense plan for exclusion for 2004.

97. T F Jeff is an airline pilot. His company allows him to fly without cost when he travels to visit his mother as long as the seat is unsold. This is a tax free fringe benefit.

98. T F The General Store offers all of it's employees a 15% discount on the store merchandise they buy. This is a tax free "fringe benefit".

99. T F Big Tax Business offers it's employees free continuing education seminars. All of the employees are licensed personnel and would be able to deduct the continuing education on their own returns if they paid for it. Big Business must add the value of the education to each employee's taxable wages.

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100. T F Employees can exclude up to $12,150/child of qualified adoption expenses under an employer adoption assistance program for 2009.

101. T F The value of the retirement watch to employees in recognition of their length of service to the company is excluded from income no matter what it costs.

102. T F Meals provided on the employer's premises in 2008 for the convenience of the employer are considered a de minimis fringe benefit and the employer can deduct 100% of the cost instead of being subject to 50% meals deduction limits.

103. T F Value of employer provided vehicle for commuting is generally added to employee's income as compensation

104. T F Value of employer-provided commuter vehicle transportation is tax free to employees with no limits.

105. T F Employer may provide $240 per month for qualified parking expenses including costs incurred at "Park and Ride" lots.

106. T F Employer may, for 1998 and after, offer employees a choice between cash and qualified parking expenses.

107. Going Concern, a sole proprietorship, gave his unrelated employee an old pickup that the employee wanted. The pickup originally was purchased for Mr. Concern's business and cost $500. It has been fully depreciated. Fair market value when it was given to the employee was $250. Going must:

   a. Add $250 to the employees taxable wages, deduct $250 from his own income (employer's) and nothing else.
   b. Add $250 to employees taxable wages, deduct $250 as wages on his own return and report the sale of the pickup for a gain of $250 on form 4797 part III
   c. Take the pickup off his depreciation schedule and do nothing since he had no basis in the pickup and the gain and expense offset each other.

108. T F To qualify as a cafeteria plan, the plan cannot discriminate in favor of certain employees.

109. T F Andy Pandy is a sole proprietor. He has an extra room in his warehouse and office building which he converts to a gym and allows his employees and their families to use it. On rare occasions, he allows his church to use it for an evening. Andy can deduct the cost of operations of the gym and does not have to include the value in the employee's wages.

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110. T F Cafeteria plans include only benefits for employees from use of a company cafeteria.

111. T F Cafeteria plans must be in **writing** and allow employees to choose among two or more benefits consisting of qualified benefits but not including cash.

112. T F Employers may provide outplacement services to employees to assist in finding new employment after the employer has "down-sized" his operations.

113. T F A sole proprietor may contribute maximum $5,000 to his traditional IRA for every year he has taxable net earnings in excess of $5,000.

114. T F For IRA contributions, self employed individuals who generate a net loss from self employment must reduce wages from other employment by the loss from self employment.

115. Joe earns $2,000 from his part time job. He has a loss from his full time business in the amount of $500. His wife works part time and earns $1,000. They may contribute, to a traditional IRA:

    a. $4,000
    b. $3,000
    c. $2,500

116. If Joe had earned $5,000 from his part time job, the maximum IRA contributions for Joe and his wife (in above question) would be:

    a. $6,000
    b. $3,000
    c. $4,500

117. T F If Joe's wife earned $4,000 and Joe is covered by an employer plan at his work (assuming total AGI for joint return of $50,000), she may only take a partial IRA deduction.

118. T F Qualified taxpayers may choose to contribute part or all of the nondeductible portion of a regular IRA to a ROTH.

119. T F Although the IRA contribution must be made by due date of the return, not including extensions, the designation may be changed from deductible to non deductible or vice versa, on an **amended return.**

120. T F ROTH - IRA contributions are limited to $5,000 or taxable compensation, whichever is less subject to AGI limitations for higher income taxpayers.

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121. T F Contributions to ROTH - IRA are allowed to taxpayer over age 70 ½

122. T F The **earnings portion** of a ROTH -IRA is tax free on a qualified distribution

123. T F If taxpayer establishes a ROTH IRA and withdraws the funds before age 59 ½ or before five years and distribution is not due to death or disability, there is no way to avoid the distribution being fully taxable and subject to 10% early withdrawal penalty.

124. T F A "Simple" retirement plan is an "employer" plan for employer's with 100 or fewer employees in the preceding year.

125. T F A "Simple" plan allows employer to match employee contributions.

126. T F A SEP plan has no vesting because all the money in the participants's account belongs to that person at all times.

127. T F Net earnings from Self employment must be reduced by self employment tax deduction reported as an adjustment to income before computing SEP contribution.

128. T F A partner in a partnership can set up a Keogh plan

129. T F A sole proprietor must have other employees to have a Keogh plan

130. T F The **employer** has control over the investments in a Keogh plan

131. T F A 401(k) plan is generally not available to the "sole proprietor" himself

132. During the current year, Jim chooses to have $4,500 taken out of his pay to fund employer contributions to his SEP - IRA. His compensation for the year is $30,000. On his W2, employer will show:

   a. $25,500 as total wages, FICA wages and Medicare Wages
   b. $30,000 as FICA and Medicare wages but only $25,500 as total taxable wages
   c. $30,000 as total wages, FICA wages and MC wages.

133. T F Rent-a-Mess is owned by taxpayer as a sole proprietorship. He rents personal property equipment but provides virtually **no** personal services. Although his income is subject to self employment tax, he can not use this net income to qualify for an IRA.

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# SOLE PROPRIETOR QUIZ

134. Jack-In-The-Box leased an office building for 5 years beginning July 1, 2004 and ending June 30, 2009 According to the terms of the lease, the rent is $12,000 per year. Jack is an accrual basis, calendar year taxpayer. He paid the first year's rent in advance ($12,000). He:

a. Should have deducted the first payment $12,000 in 2004
b. Should have deducted $6,000 in 2004 and $6,000 in 2005
c. Should not have deducted any of the $12,000 until end of lease in 2009

135. T F Swift Client brings lease papers to you at tax time to substantiate lease deductions on his business equipment. The lease indicates 30 payments at $1,000 with option to buy the property for a final $410 at the end of the lease. The retail sales price of the equipment at the time Swift signed the lease was $28,000. Swift may take the payments as lease expense.

136. T F Under a lease agreement, Stable Able pays $1,000 per month for his business building. Under the lease, Mr. Able must furnish adequate insurance and pay the real estate taxes each year. Mr. Able will deduct the annual real estate tax payment as **rent** when he pays them.

137. T F If you pay $10,000 to acquire an existing lease on a machine and there are 10 years remaining on the lease with no option to renew, you can deduct the $10,000 acquisition costs in the year paid.

138. Paul Pauper is a calendar year taxpayer and signs a 20 year lease to rent part of a building beginning on January 1. Before he moved in, he decided he needed less space. The lessor agrees to reduce the rent from $7,000 to $6,000 per year and to release the excess space from the original lease in exchange for additional rent of $3,000 payable over 60 months at $50 each. Paul may

a. Deduct the $50 per month as rent expenses for 60 months
b. Amortize the $3,000 over 20 years as modification costs
c. Deduct the $50 per month as amortization for 60 months

139. In 2006, Hanky Panky leased unimproved land for 99 years and built a warehouse on it. In January 2007, immediately after the building was completed, he assigned all his rights in the lease to Handy Dandy. Handy Dandy paid Hanky Panky $110,000 for the assignment and Hanky Panky agreed to pay the rent for the leased land. The contract provided that payment would be $100,000 for improvements and $10,000 for the leasehold. Hanky may

a. Amortize the $100,000 cost of the leasehold improvements over 98 years remaining and expense currently the $10,000
b. Amortize the $110,000 total over 98 years remaining
c. Amortize $10,000 over 98 years remaining and depreciate $100,000 building over life required for non residential real estate.

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140. T F Client rents construction equipment to build a storage facility. The rent paid for the equipment must be capitalized as part of the cost of the building.

141. T F Tool Man rents space in a facility to conduct his business of manufacturing tools. He conducts no other business at the facility. The rent must be included in cost of the tools he produces.

142. On January 17, 2009, you leased a car for three years and placed it in service for use in your business (100% of course!). The car had a fair market value of $32,250 on the first day of the lease. You must include in your 2009 return, an inclusion amount of:

   a. $2,860
   b. $88
   c. $58 (adjusted by $2 for one half month)

143. T F Goofy bought a $223,000 tractor and a $31,200 saw for use in his business in January 2009. Both items were placed in service at time of purchase. Goofy may take section 179 expense for 2009 in the amount of $254,200.

144. T F You **must** claim depreciation on assets usually used in trade or business but temporarily idle.

145. T F Costs to demolish a business building can be deducted in the year the building is destroyed.

146. T F You may **choose** to amortize research and experimental costs over 60 months or deduct as current business expense.

147. T F Special elections are available for reforestation expenses and pollution control facilities construction

148. T F Smitty is an advertising agent. He made loans to some of his clients to retain their business (assume this was **not** a **bribe!)** His dominant reason for making the loans was his business. One of the clients went bankrupt and could not repay Smitty. Dumb Smitty may deduct the loan as a business bad debt.

149. T F Droopy Dress Co. is owned by Dopey Dan. He guaranteed payment of a $20,000 loan for Fancy Footwork Dress Manufacturing. The manufacturer was one of Dopey's largest clients. Fancy Footwork takes out bankruptcy and defaults on the loan. Dopey has to pay the loan back to the bank. He may take the payment as a business bad debt deduction

150. T F A bad debt deduction can produce or increase a net operating loss.

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151. T F The special rate for rural mail carriers for 2009 is 55 cents per mile

152. T F For 2009, you must own the car (not lease it) in order to use standard mileage rates.

153. T F In March of 2009 Hot Shot Salesman took a business trip to Washington DC. His wife accompanied him to assist him in entertaining clients while in Washington. She does not help him with sales and attends no business meetings. Hot Shot can deduct expenses for his spouse on this trip.

154. T F Because of the terrible traffic jams en route to your office, you install a telephone in the car so that you can take calls from clients when you are delayed. You also use the phone to make business calls while commuting to and from work. Sometimes your neighbor, who works in your office, rides to work with you. When you use the phone or when the neighbor rides with you may take business miles expenses for the trip to the office if you keep proper records.

155. T F Away from home assignments that are **realistically expected to last** one year or less (and does in fact) are considered temporary under new definition

156. T F Travel for conventions and seminars is deductible if necessary to carry on a trade, business, or investments.

157. T F Travel expenses to conduct a general search for or preliminary investigation of a new business are not deductible.

158. T F Standard meal allowance is a daily allowable amount for meals and incidental expenses such as laundry and cleaning while traveling away from home on business.

159. T F If you use standard meal allowance you do not need to keep records

160. T F Sole proprietors may use standard meal allowance for themselves but can not use it for his/her brother if the brother is an employee.

161. T F The standard meal allowance does not apply to Alaska or Hawaii.

162. T F There are four standard meal rates per day

163 T F If you are subject to the Department of Transportation(DOT) rules and use the standard meal allowance, it must be reduced by 25%.

# SOLE PROPRIETOR QUIZ

164. T F You are a long haul trucker. You travel to various locations in the United States. You maintain your home in Eugene, Oregon where your family lives and where you obtain your dispatching from. You may elect to use $41 per day standard meal allowance for all of the full days away from home.

165. Sleepy Sam lives and works in Los Angeles. He is self-employed in building repair business. He goes to Klamath Falls, Oregon on a temporary job to repair flood damages. He leaves home at 8 a.m. on March 23. The job is completed on March 26 and he arrives at home at 4 p.m. that day. His standard meal allowance for the trip is:

a) $137
b) $120
c) $136

166. Dizzy Dean is a sole proprietor in Atlanta, Ga. He operates an equipment repair shop. He makes a trip to New Orleans for a conference related to equipment repair updates. The conference qualifies for deduction from his return. Dizzy spent $630 for the 9 days he was away from home for travel, meals, lodging and other travel expense. He stopped in Mobile to visit his mother Daffy. If he had not stopped in Mobile, he would have been gone only 6 days and total cost would have been $580. He can:

a) Deduct the entire trip since the business portion was for more than the personal portion
b) Deduct only the $580 business portion
c) Must separate the expenses and may deduct all of the transportation but only 2/3 of other expenses.

167. Marcus Welby is a doctor practicing medicine and a member of a professional association. The association sponsored a 2 week trip to two foreign countries with three professional seminars in each country. Each seminar was 2 hours long and held in a different city. He also made an optional side trip to a well-known tourist attraction in each of the countries visited. At the end of the trip he received a Certificate of Continuing Education in Medicine. He paid air fare, hotel accommodation, meals, special escort fees, transportation to and from hotels, and tips. He

a) May only deduct the air fare
b) May deduct the air fare and any related meals while attending the 2 hour conferences.
c) Nothing

168. T F Individuals subject to Dept of Transportation “hours of service” rules may deduct 75% of meals and entertainment for 2007.

# SOLE PROPRIETOR QUIZ

169. T F Advertising display on your care qualifies it for business use deductions.

170. T F Automobile records must show total business miles driven but are not required to show other miles.

171. T F Gifts to a spouse of a client are generally combined with gift to the other spouse unless bonafide reason for separate gifts.

172. T F Any item that might be considered a gift or entertainment,. will generally be considered entertainment.

173. T F There is NO deduction for club dues.

174. T F A sole proprietor may elect to reimburse employees for business use of their car at a fixed mileage rate for business travel.

175.. T F If an employee meets the three rules for accountable plans, reimbursement from employer should **not** be included in box 10 of form W2.

176. T F If employer reimbursement of meal and entertainment expenses comes under an accountable plan, the employee will still be subject to 50% limits

177. If expenses are reimbursed under an accountable plan but the **employee** fails to meet all three of the rules:

a) The entire reimbursement is included in income for employee
b) The amount not accounted for is included in income for the employee
c) The employer can not deduct amounts that the employee fails to account for.

178. T F An employee must return excess funds within 30 days in order to qualify the accountable plan.

179. T F If employer has accountable plan but reimburses employee for deductible **and** nondeductible expenses, the plan is voided and **all** reimbursements are handled as if **non** accountable plan.

180. T F If per diem is less than or equal to federal per diem rates it is **not** included in employee W2 wages.

181. T F Per diem allowance satisfies adequate accounting requirements for the amount even if employee is related to employer.

# SOLE PROPRIETOR QUIZ

182. T F To use the high low per diem substantiation method you must use the IRS Prescribed tables.

183. In the current year, Conscientious Constance, a self employed individual, gave her employee Dim Kim $500 a month ($6,000 for year) for business expenses. Constance did not require Kim to provide any proof of her expenses and Kim kept any excess funds. Constance must:

    a) include the $6,000 in W2 as if wages
    b) issue a 1099 showing non-employee compensation $6,000
    c) deduct the $6,000 as a fringe benefit and not include it in W2 wages.

184. Helpful Hannah is self employed and pays her employee Kute Kevin $2,000 a month. On days that Kevin travels away from home on business, Hannah designates $50 a day of his salary as paid to reimburse him for his travel expenses. Kevin does not produce any receipts or substantiation for the expenses. Hannah:

    a) must include the $50 per day as wages
    b) may exclude $50 per day from wages if she can show that Kevin was away from home on business
    c) must issue a 1099 for all of the away from home days paid at $50 but can exclude from W2 wages.

185. T F Interest paid on loans on life insurance of sole proprietors is deductible as business expense if proceeds were used for business purposes as long as the loan does not exceed $100,000

186. T F Prepayment penalty for early payoff of a business loan is a deductible interest expense.

187 T F On payment of back payroll taxes to Internal Revenue, the first payments are applied to interest.

188. Les Reliable is self employed and files his return on a calendar year basis. He bought a fire insurance policy on his business building effective Oct. 1, 2008 and paid an advance premium of $1200 for two years. He:

    a) may deduct $600 in 2008 and $600 in 2009
    b) may deduct $150 in 2008, $600 in 2009, $450 in 2010
    c) may deduct $1200 in 2008 if he is on cash basis

189. T F A qualified employee group hospitalization plan must provide for continued coverage to employees and beneficiaries when certain events occur.

# SOLE PROPRIETOR QUIZ

190 .T F A self employed individual may deduct premiums on policies that pay for lost earnings for sickness or injury.

191. T F Life Insurance premiums are non deductible for sole proprietor if the sole proprietor is directly OR indirectly the beneficiary of the policy.

192. T F Key person insurance is subject to withholding unless included in a group term policy.

193. T F The cost of group term life insurance in excess of $50,000 for an employee is subject to withholding tax, social security tax/medicare tax.

194. T F Assessments for repairs of streets in front of a business building are deductible as current expenses when paid (or accrued if accrual basis).

195 T F An accrual method taxpayer **must** accrue real property taxes in full when the assessment is made

196. T F Cost or preparing tax returns for a sole proprietor is only deductible only as a misc. itemized deduction.

197 T F Advertising by a sole proprietor to influence legislation that would be helpful to his business is **not** deductible.

198 T F Advertising in Mexico on Mexican radio station is never a deduction.

199 T F Bribes and kickbacks are never deductible.

200. T F Interview expense reimbursements made to job candidates are deductible by the employer but are **not** wages subject to social security, medicare or employment taxes.

201. T F Cost of advertising which encourages people to contribute to the Red Cross or to buy U.S. Savings bonds is generally a current business deduction.

202. T F Assuming you sold one year T.V. service contracts this past year totaling $50,000. From past experience, you know that you will have expenses of about $15,000 in the coming year for these contracts. Neither you nor a person controlled by you sold the T.V. sets that are covered by the contracts. You can deduct the $15,000 this year from the $50,000 sale as a reserve liability account.

## **SOLE PROPRIETOR QUIZ**

203. T F Green Machine, a sole proprietor insurance broker, pays car dealers who refer insurance customers to him a part of the insurance commissions he earns. The car dealers are not licensed to sell insurance. If these payments are in made in violation of any federal or state law which is enforced in his area, Green may **not** deduct the kickback amount.

204. Mover Man is a sole proprietor who operates construction equipment at various locations. His shop is located in Dallas, Texas. He purchases a new piece of machinery in Austin and moves it to his shop in Dallas. After checking the machine to be sure it is in good operating order, he moves the machine to it's first job location which will last about two weeks. He:

    a) May deduct moving costs for both moves
    b) Must capitalize moving costs from Austin to Dallas
    c) May not deduct any of the moving costs since he does not have a tax home.

205. T F Penalties paid for late performance or nonperformance of a contract are generally deductible.

206. T F Fines for violating city housing codes are generally **non** deductible.

207. T F Overload fines paid by truckers are **non** deductible.

208. T F Legal fees and related expenses to defend in prosecution or civil action for a violation of law imposing a fine **are** deductible.

209 T F Nonperformance penalty assessed by Environmental Protection Agency for failure to meet certain emission standards is deductible.

210. T F A home office will qualify as taxpayer’s principal place of business for purposes of office in home deductions if the office is used by taxpayer to conduct administrative or management activities of taxpayers trade or business **and** if there is no other fixed location of the trade or business where taxpayer conducts substantial administrative or management activities of the trade or business.

211. T F A self employed person is generally at risk for amounts borrowed for use in the activity if he is personally liable for repayment of the amounts or if the amounts are secured by property not used in the business activity.

## SOLE PROPRIETOR QUIZ

212. T F Tax preparers and clients must determine if a venture is a business or hobby when they file the first tax return for the venture.

213. T F Filing form 5213 automatically extends statute of limits for all years in the "presumption" period.

214. T F Easements are usually not considered sales of property.

215. T F You used a car in business for 2 years. Its depreciated basis is $3,500 and its trade-in value is $4,500. You are interested in a car that costs $10,500. Ordinarily, you would trade your old car in for the new one and pay the dealer an additional $6,000. Your basis for the new car would then be $9,500. You may sell your old car to the dealer for $4,500 and buy the new car from the same dealer for $10,500 and use $10,500 as the basis for your new vehicle if you report sale of the old vehicle on form 4797.

216. T F Wheeler Dealer is in the business of developing and selling restaurants. He is constantly acquiring new sites, developing them, and then selling them prior to operation of a business. He may report gains on these transactions as capital gain since the sites were not used in a trade or business as a restaurant.

217. T F Christmas tree growers may report sale of their Christmas trees as capital gain if they are more than 6 years old.

218. T F Dear Dad has been self employed as a trucker almost all of his life. He has traded in old trucks on new ones and now has a brand new truck that, because of "look back"depreciation, has no basis. The FMV of the truck, however, is $65,000. Dad would like to retire but does not want to sell this ***great*** truck. His son is now in the trucking business and has an old truck. Dad wants to give the new truck to his son. If he does this, he will have to pay taxes on the gain.

219. T F If, in #218, Dear Dad dies while still owning the truck and his will leaves the truck to son, the recapture potential dies with dad.

220. Sonny Boy received the business truck when his father died at a FMV of $65,000. He immediately wrecked it. Dad would turn over in his grave!! After appraisals, Sonny's insurance adjuster determines the loss is only $2,000. Sonny does carry insurance but it is $250 deductible, so he receives $1,750 from the insurance company. Sonny:

- a) Has $2,000 casualty loss deduction
- b) Has only $250 casualty loss deduction and must reduce the basis of the truck by $250 only
- c) Has only $250 casualty loss and must reduce the basis of the truck by $2,000

221. T F Before being partly destroyed by fire, your business building had an adjusted basis of $115,000. Its value was $130,000 just before the fire and $120,000 immediately after. You collected $10,000 insurance. You have no casualty loss and must reduce basis of building by $10,000.

222. A collision with another car in 2008 completely destroyed your business car. The negligence of the other driver caused the accident. Your auto had a FMV of $4,000 and an adjusted basis of $3,000. As of 12-31-08, it was reasonable to believe you would recover the total damages from the owner of the other car. You took no loss in 2007. In January, 2009, the court awarded you a judgment of $4,000, but in July 2009, you can show with reasonable certainty the other driver has nothing against which you can enforce the judgment. You:

- a) must amend 2008 return and take a $4,000 loss
- b) You should have taken a $4,000 loss on your 2008 return
- c) can take a loss of $4,000 on 2009 return
- d) You should have taken a loss of $3,000 on your 2008 return

223. T F If a loss occurs from a disaster in an area determined by the President of the United States to be eligible for federal disaster relief assistance, the loss may be deducted on the return for the immediately **preceding year.**

224. Your general business credit for the year is $30,000. Net income tax is $27,500. Tentative minimum tax is $18,487. The amount of general business credit you can use for the tax year is:

- a) $30,000
- b) $27,500
- c) $18,487
- d) $ 9,013

225. T F Disabled access credit is refundable.

226. T F Disabled access credit is 50% of all qualified expenses

# SOLE PROPRIETOR QUIZ

227. T F. A small business who has 35 or fewer full time employees may qualify for disabled access credit.

228. T F Reforestation credit is 10% up to $10,000 of qualified expenses.

229. T F Rehabilitation credit is 20% for certified historic structures.

230. T F Business energy credit is for solar, geothermal and wind

231. T F Generally, you must reduce depreciable basis on assets for which a business investment type credit is taken.

232. T F Unused business credits for 2008 can be carried back 3 years and forward 15 years.

233. T F Recapture of an investment credit is generally triggered by change in form of doing business.

234. T F Targeted jobs credit expired and was not reinstated or extended in any form.

235. T F Low income housing credit expired as of 12-31-94.

236. T F Research credit was designed to encourage businesses to increase the amounts they spend on research and experimental activities.

237. T F Welfare to Work Credit is only available for first year employee works

238. You are sole proprietor of two separate businesses. You operate a restaurant that made a net profit of $25,000 (unusual??) and also have a cabinetmaking business that had a new loss of $500 last year. You:

    a) File one Sch C and one Sch SE combining both businesses
    b) File two Sch. C's and One Sch. SE
    c) File two Sch. C's and Two Sch. SE

# SOLE PROPRIETOR QUIZ

239 Busy Bee owns a grocery store that reported the following items for the year:

| | |
|---|---|
| Gross profit on sales . . . . . . . . . . . . . . . . . . . | $87.400 |
| Salaries paid out . . . . . . . . . . . . . . . . . . . . . . | $30,000 |
| Rent paid . . . . . . . . . . . . . . . . . . . . . . . . . . . | $ 6,000 |
| Utilities . . . . . . . . . . . . . . . . . . . . . . . . . . . | $ 2,400 |
| Other expenses. . . . . . . . . . . . . . . . . . . . . . . . | $ 1,900 |
| Gain on sale of refrigerator. . . . . . . . . . . . . . . | $ 350 |
| Fire loss on store building . . . . . . . . . . . . . . . | $ 1,200 |
| Net operating loss carryover . . . . . . . . . . . . . | $ 1,000 |

Busy's SE taxable income is:

a) $46,750
b) $45,550
c) $44,550
d) $47,100

240 T F John is retired. He used to be a house painter but has not been employed as such for 10 years. He has always liked to "putter" with his yard and has a real show place. His neighbor, in an effort to "keep up with the Jones"' asked John to landscape their yard for them. John did the work and they paid him $5,000. He refused to maintain the yard once it was established and will never do **that** again --- it was a tough job!!
John must pay taxes and self employment taxes on the $5,000.

241. See Saw brings his W2 form to you to prepare his tax return. He is a timber faller and has saw repairs and maintenance expenses. He has not submitted his expenses to his employer for reimbursement and he produces a 1099 showing $5,000 worth of saw rent and shown as "non-employee compensation"
He:

a) Should return the 1099 and get it voided and have the employer report the saw rent as wages on a corrected W2 and withhold on such wages.
b) Can go ahead and file the saw rent and expenses on Sch. E
c) Can go ahead and file the saw rent and expenses on Sch. C.

242. T F Statutory employees are not subject to withholding tax but are subject to social security and medicare tax.

243 T. F A driver who distributes milk products can be a statutory employee.

244. T F Janie is a homemaker but is very good at refinishing photographs. She accepts photos for refinishing from several studios in her state, does the finish work at home and returns the photos to the studios. The studios have no control over **<u>when</u>** Janie will work on the photos, furnish no equipment. Janie is a home worker for the statutory employee rules.

245 T F In above question, if Janie only worked for one studio she would be a home worker for statutory employee rules.

246. T F Real estate agents are specific statutory employees

247 T F Real estate agents are generally considered self employed

248. T F An employer who treats an employee as an independent contractor can be held liable for all employment taxes and 100% penalty.

249 T F A non working spouse and taxpayer, both age 45, combined may have a maximum of $10,000 contribution to their IRAs for 2009 (if all other conditions are met)

250 T F You could have established a ROTH IRA in 1997.

251 T F An employer can not currently maintain another qualified plan of any kind in a year that he establishes a **SIMPLE** plan.

252 T F An employee may elect, for a **SIMPLE** deferrals up to $6,000 regardless of his compensation.

253 T F Employees may participate in another employer's qualified plan and a **SIMPLE** plan of current employer without additional limitations.

254 T F Employer must deposit his matching contributions to the employees account by the end of the month on which the employees share was withheld.

255 T F Employees may roll over their SIMPLE plan assets to another IRA at any time.

**COMPLETE THE ATTACHED ANSWER PAGE(S)**

**EMAIL OR FAX OR MAIL ANSWER PAGE(S) ONLY**

2009