Student name:\_\_\_\_\_\_\_\_\_\_

1. The following are a series of tables that may be referred to in several questions throughout your test. Please refer to these tables as needed or as directed.  
   **Table 1 MACRS Half-Year Convention**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Depreciation Rate for Recovery Period** | | | | | | |
|  | **3-Year** | **5-Year** | **7-Year** | **10-Year** | **15-Year** | **20-Year** |
| **Year 1** | 33.33% | 20.00% | 14.29% | 10.00% | 5.00% | 3.750% |
| **Year 2** | 44.45 | 32.00 | 24.49 | 18.00 | 9.50 | 7.219 |
| **Year 3** | 14.81 | 19.20 | 17.49 | 14.40 | 8.55 | 6.677 |
| **Year 4** | 7.41 | 11.52 | 12.49 | 11.52 | 7.70 | 6.177 |
| **Year 5** |  | 11.52 | 8.93 | 9.22 | 6.93 | 5.713 |
| **Year 6** |  | 5.76 | 8.92 | 7.37 | 6.23 | 5.285 |
| **Year 7** |  |  | 8.93 | 6.55 | 5.90 | 4.888 |
| **Year 8** |  |  | 4.46 | 6.55 | 5.90 | 4.522 |
| **Year 9** |  |  |  | 6.56 | 5.91 | 4.462 |
| **Year 10** |  |  |  | 6.55 | 5.90 | 4.461 |
| **Year 11** |  |  |  | 3.28 | 5.91 | 4.462 |
| **Year 12** |  |  |  |  | 5.90 | 4.461 |
| **Year 13** |  |  |  |  | 5.91 | 4.462 |
| **Year 14** |  |  |  |  | 5.90 | 4.461 |
| **Year 15** |  |  |  |  | 5.91 | 4.462 |
| **Year 16** |  |  |  |  | 2.95 | 4.461 |
| **Year 17** |  |  |  |  |  | 4.462 |
| **Year 18** |  |  |  |  |  | 4.461 |
| **Year 19** |  |  |  |  |  | 4.462 |
| **Year 20** |  |  |  |  |  | 4.461 |
| **Year 21** |  |  |  |  |  | 2.231 |

**TABLE 2a MACRS Mid-Quarter Convention:** *For property placed in service during the first quarter*

|  |  |  |
| --- | --- | --- |
| **Depreciation Rate for Recovery Period** | | |
|  | **5-Year** | **7-Year** |
| **Year 1** | 35.00% | 25.00% |
| **Year 2** | 26.00 | 21.43 |
| **Year 3** | 15.60 | 15.31 |
| **Year 4** | 11.01 | 10.93 |
| **Year 5** | 11.01 | 8.75 |
| **Year 6** | 1.38 | 8.74 |
| **Year 7** |  | 8.75 |
| **Year 8** |  | 1.09 |

**TABLE 2b MACRS Mid-Quarter Convention:***For property placed in service during the second quarter*

|  |  |  |
| --- | --- | --- |
| **Depreciation Rate for Recovery Period** | | |
|  | **5-Year** | **7-Year** |
| **Year 1** | 25.00% | 17.85% |
| **Year 2** | 30.00 | 23.47 |
| **Year 3** | 18.00 | 16.76 |
| **Year 4** | 11.37 | 11.97 |
| **Year 5** | 11.37 | 8.87 |
| **Year 6** | 4.26 | 8.87 |
| **Year 7** |  | 8.87 |
| **Year 8** |  | 3.34 |

**TABLE 2c MACRS Mid-Quarter Convention:***For property placed in service during the third quarter*

|  |  |  |
| --- | --- | --- |
| **Depreciation Rate for Recovery Period** | | |
|  | **5-Year** | **7-Year** |
| **Year 1** | 15.00% | 10.71% |
| **Year 2** | 34.00 | 25.51 |
| **Year 3** | 20.40 | 18.22 |
| **Year 4** | 12.24 | 13.02 |
| **Year 5** | 11.30 | 9.30 |
| **Year 6** | 7.06 | 8.85 |
| **Year 7** |  | 8.86 |
| **Year 8** |  | 5.53 |

**TABLE 2d MACRS-Mid Quarter Convention:***For property placed in service during the fourth quarter*

|  |  |  |
| --- | --- | --- |
| **Depreciation Rate for Recovery Period** | | |
|  | **5-Year** | **7-Year** |
| **Year 1** | 5.00% | 3.57% |
| **Year 2** | 38.00 | 27.55 |
| **Year 3** | 22.80 | 19.68 |
| **Year 4** | 13.68 | 14.06 |
| **Year 5** | 10.94 | 10.04 |
| **Year 6** | 9.58 | 8.73 |
| **Year 7** |  | 8.73 |
| **Year 8** |  | 7.64 |

**TABLE 5 Nonresidential Real Property Mid-Month Convention Straight Line—39 Years (for assets placed in service on or after May 13, 1993)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Month Property Placed in Service** | | | | | | | | | | | | |
|  | **Month 1** | **Month 2** | **Month 3** | **Month 4** | **Month 5** | **Month 6** | **Month 7** | **Month 8** | **Month 9** | **Month 10** | **Month 11** | **Month 12** |
| **Year 1** | 2.461% | 2.247% | 2.033% | 1.819% | 1.605% | 1.391% | 1.177% | 0.963% | 0.749% | 0.535% | 0.321% | 0.107% |
| **Year 2–39** | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 | 2.564 |
| **Year 40** | 0.107 | 0.321 | 0.535 | 0.749 | 0.963 | 1.177 | 1.391 | 1.605 | 1.819 | 2.033 | 2.247 | 2.461 |

**TABLE 3 Residential Rental Property Mid-Month Convention Straight Line—27.5 Years**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Month Property Placed in Service** | | | | | | | | | | | | |
|  | **Month 1** | **Month 2** | **Month 3** | **Month 4** | **Month 5** | **Month 6** | **Month 7** | **Month 8** | **Month 9** | **Month 10** | **Month 11** | **Month 12** |
| **Year 1** | 3.485% | 3.182% | 2.879% | 2.576% | 2.273% | 1.970% | 1.667% | 1.364% | 1.061% | 0.758% | 0.455% | 0.152% |
| **Year 2-9** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 10** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 11** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 12** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 13** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 14** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 15** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 16** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 17** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 18** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 19** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 20** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 21** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 22** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 23** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 24** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 25** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 26** | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 27** | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 | 3.637 |
| **Year 28** | 1.97 | 2.273 | 2.576 | 2.879 | 3.182 | 3.485 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 | 3.636 |
| **Year 29** |  |  |  |  |  |  | 0.152 | 0.455 | 0.758 | 1.061 | 1.364 | 1.667 |

**EXHIBIT 10-10 Automobile Depreciation Limits**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Recovery Year** | **Year Placed in Service** | | | |
| **2024** | **2023** | **2022** | **2021** |
| **1** | 12,400\* | 12,200\* | 11,200\* | 10,200\* |
| **2** | 19,800 | 19,500 | 18,000 | 16,400 |
| **3** | 11,900 | 11,700 | 10,800 | 9,800 |
| **4 and after** | 7,160 | 6,950 | 6,460 | 5,860 |

*\*$8,000 additional depreciation is allowed when bonus depreciation is claimed [§168(k)(2)(F)].*  
**EXHIBIT 10-6 Mid-Quarter Convention Percentage of Full-Year's Depreciation in Year of Disposition**

|  |  |  |
| --- | --- | --- |
| **Quarter of Disposition** | **Percentage** | **Calculation\*** |
| **1st** | 12.5% | 1.5 ÷ 12 |
| **2nd** | 37.5 | 4.5 ÷ 12 |
| **3rd** | 62.5 | 7.5 ÷ 12 |
| **4th** | 87.5 | 10.5 ÷ 12 |

\**The calculation is the number of months the taxpayer is deemed to have held the asset in the year of disposition divided by 12 months in the year.*

1. Like financial accounting, most acquired business property must be capitalized for tax purposes.

* true
* false

1. Tax cost recovery methods include depreciation, amortization, and depletion.

* true
* false

1. If a business mistakenly claims too little depreciation, the business must only reduce the asset's basis by the depreciation actually taken rather than by the amount of the allowable depreciation.

* true
* false

1. An asset's capitalized cost basis includes only the actual purchase price, whereas expenses to purchase, prepare the asset for use, and begin using the asset are immediately expensed.

* true
* false

1. The basis for a personal-use asset converted to business use is the lesser of the asset's cost basis or fair market value on the date of the transfer or conversion.

* true
* false

1. Depreciation is currently computed under the Modified Accelerated Cost Recovery System (MACRS).

* true
* false

1. The 200 percent or double declining balance method is allowable for five- and seven-year property.

* true
* false

1. Taxpayers may use historical data to determine the recovery period for tax depreciation.

* true
* false

1. Taxpayers use the half-year convention for all assets.

* true
* false

1. If a taxpayer places only one asset (a building) in service during the fourth quarter of the year, the mid-quarter convention must be used.

* true
* false

1. The MACRS depreciation tables automatically switch to the straight-line method when the straight-line method yields a higher annual depreciation amount than the declining balance method.

* true
* false

1. If tangible personal property is depreciated using the half-year convention and is disposed of during the first quarter of a subsequent year, the taxpayer must use the mid-quarter convention for the year of disposition.

* true
* false

1. If a machine (seven-year property) being depreciated using the half-year convention is disposed of during the seventh year, a taxpayer must multiply the appropriate depreciation percentage from the MACRS table by 50 percent to calculate the depreciation expense properly.

* true
* false

1. Real property is depreciated using the straight-line method.

* true
* false

1. The mid-month convention applies to real property in the year of acquisition and disposition.

* true
* false

1. All taxpayers may use the §179 immediate expensing election on certain property.

* true
* false

1. The §179 immediate expensing election phases out based upon a taxpayer's taxable income.

* true
* false

1. The §179 immediate expensing election phases out based upon the amount of tangible personal property a taxpayer places in service during the year.

* true
* false

1. Property expensed under the §179 immediate expensing election is not included in the 40 percent test to determine whether the mid-quarter convention must be used.

* true
* false

1. In general, a taxpayer should select longer-lived property for the §179 immediate expensing election.

* true
* false

1. Bonus depreciation is used as a stimulus tool by tax policy makers.

* true
* false

1. Used property is eligible for bonus depreciation.

* true
* false

1. Business assets that tend to be used for both business and personal purposes are referred to as listed property.

* true
* false

1. If the business-use percentage for listed property falls below 50 percent, the only adjustment is that all future depreciation must be calculated under the straight-line method.

* true
* false

1. Limits are placed on the depreciation of luxury automobiles.

* true
* false

1. To increase their depreciation deduction on automobiles, taxpayers should elect §179 expense.

* true
* false

1. The alternative depreciation system requires both a slower method of recovery and longer recovery periods.

* true
* false

1. The method for tax amortization is always the straight-line method.

* true
* false

1. All assets subject to amortization have the same recovery period.

* true
* false

1. Goodwill and customer lists are examples of §197 amortizable assets.

* true
* false

1. Taxpayers may always expense a portion of start-up costs and organizational expenditures.

* true
* false

1. Businesses may immediately expense research and experimentation expenditures, or they may elect to capitalize these costs and amortize them using the straight-line method over a period of not less than 60 months.

* true
* false

1. A business amortizes a patent or copyright the same way whether the business directly purchases the patent or copyright or whether it self-creates the intangible.

* true
* false

1. Depletion is the method taxpayers use to recover their capital investment in natural resources.

* true
* false

1. In general, major integrated oil and gas producers may take the greater of cost or percentage depletion.

* true
* false

1. Cost depletion is available to all natural resource producers.

* true
* false

1. Businesses deduct percentage depletion when they sell the natural resource and they deduct cost depletion in the year they produce or extract the natural resource.

* true
* false

1. Tax cost recovery methods do not include:

amortization.

capitalization.

depletion.

depreciation.

all of the choices are tax cost recovery methods.

1. Which of the following business assets is not depreciated?

Automobile

Building

Patent

Machinery

All of the assets are depreciated.

1. An office desk is an example of:

personal property.

personal-use property.

real property.

business property.

personal property and business property.

1. An example of an asset that is both personal-use and personal property is:

a computer used solely to email company employees regarding company activities.

a storage building used by the CEO to store personal records.

a computer used solely to monitor the CEOs investments and to complete her Form 1040.

a company airplane used by the CEO for business travel.

all of the assets are personal-use and personal property.

1. Which of the following is not usually included in an asset's tax basis?

Purchase price

Sales tax

Shipping

Installation costs

All of the choices are included in an asset's tax basis.

1. Which of the following would be considered an improvement rather than routine maintenance?

Oil change

Engine overhaul

Wiper blade replacement

Air filter change

1. Tax depreciation is currently calculated under what system?

Sum-of-the-years'-digits

Accelerated cost recovery system

Modified Accelerated Cost Recovery System

Straight-line system

None of the choices are correct.

1. Which is not an allowable method under MACRS?

150 percent declining balance

200 percent declining balance

Straight-line

Sum-of-the-years'-digits

All of the choices are allowable methods under MACRS.

1. Which of the allowable methods allows the most accelerated depreciation?

150 percent declining balance

200 percent declining balance

Straight-line

Sum-of-the-years'-digits

None of the methods would allow accelerated depreciation.

1. How is the recovery period of an asset determined?

Estimated useful life

Treasury regulation

Revenue Procedure 87-56

Revenue Ruling 97-56

None of the choices are correct.

1. Which of the following depreciation conventions is not used under MACRS?

Full-month

Half-year

Mid-month

Mid-quarter

All of the choices are used under MACRS.

1. Which depreciation convention is the general rule for tangible personal property?

Full-month

Half-year

Mid-month

Mid-quarter

None of the choices are conventions for tangible personal property.

1. The MACRS recovery period for automobiles and computers is:

three years.

five years.

seven years.

ten years.

None of the choices are correct.

1. Lax LLC purchased only one asset during the current year (a full 12-month tax year). On August 26 Lax placed in service computer equipment (five-year property) with a basis of $20,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

$2,000

$2,858

$3,000

$4,000

None of the choices are correct.

1. Lax LLC purchased only one asset during the current year (a full 12-month tax year). On August 26 Lax placed in service computer equipment (five-year property) with a basis of $22,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

$2,400

$3,258

$3,400

$4,400

None of the choices are correct.

1. Sairra LLC purchased only one asset during the current year (a full 12-month tax year). On April 16 Sairra placed in service furniture (seven-year property) with a basis of $25,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$1,786

$3,573

$4,463

$5,000

None of the choices are correct.

1. Sairra LLC purchased only one asset during the current year (a full 12-month tax year). On April 16 Sairra placed in service furniture (seven-year property) with a basis of $43,000. Calculate the maximum depreciation expense for the current year (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$3,072

$6,145

$7,035

$8,600

None of the choices are correct.

1. Beth's business purchased only one asset during the current year (a full 12-month tax year). On December 1 Beth placed in service machinery (seven-year property) with a basis of $50,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)

$1,785

$2,500

$7,145

$10,000

None of the choices are correct.

1. Beth's business purchased only one asset during the current year (a full 12-month tax year). On December 1 Beth placed in service machinery (seven-year property) with a basis of $70,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)  
   **Note: Round final answer to the nearest whole number.**

$2,499

$3,500

$10,001

$14,000

None of the choices are correct.

1. Deirdre's business purchased two assets during the current year (a full 12-month tax year). On January 20 Deirdre placed in service computer equipment (five-year property) with a basis of $15,000 and on September 1 placed in service machinery (seven-year property) with a basis of $15,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year ConventionTable.)  
   **Note: Round final answer to the nearest whole number.**

$1,286

$5,144

$5,786

$6,000

None of the choices are correct.

1. Suvi, Incorporated purchased two assets during the current year (a full 12-month tax year). On August 10 Suvi placed in service computer equipment (five-year property) with a basis of $20,000 and on November 18 placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$857

$3,357

$5,429

$6,000

None of the choices are correct.

1. Wheeler LLC purchased two assets during the current year (a full 12-month tax year). On November 16 Wheeler placed in service computer equipment (five-year property) with a basis of $15,000 and on April 20 placed in service furniture (seven-year property) with a basis of $11,000. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)  
   **Note: Round final answer to the nearest whole number.**

$1,285

$2,714

$4,572

$5,200

None of the choices are correct.

1. Wheeler LLC purchased two assets during the current year (a full 12-month tax year). On November 16 Wheeler placed in service computer equipment (five-year property) with a basis of $26,500 and on April 20 placed in service furniture (seven-year property) with a basis of $17,900. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)  
   **Note: Round final answer to the nearest whole number.**

$3,091

$4,520

$6,378

$7,006

None of the choices are correct.

1. Tasha LLC purchased furniture (seven-year property) on April 20 for $20,000 and used the half-year convention to depreciate it. Tasha did not take §179 or bonus depreciation in the year it acquired the furniture. During the current year, which is the fourth year Tasha LLC owned the property, the property was disposed of on December 15. Calculate the maximum depreciation expense. (Use MACRS Table 1)  
   **Note: Round final answer to the nearest whole number.**

$898

$2,095

$1,249

$2,498

None of the choices are correct.

1. Anne LLC purchased computer equipment (five-year property) on August 29 for $30,000 and used the half-year convention to depreciate it. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1.)

$432

$1,728

$1,874

$3,456

None of the choices are correct.

1. Anne LLC purchased computer equipment (five-year property) on August 29 for $33,000 and used the half-year convention to depreciate it. Anne LLC did not take §179 or bonus depreciation in the year it acquired the computer equipment. During the current year, which is the fourth year Anne LLC owned the property, the property was disposed of on January 15. Calculate the maximum depreciation expense. (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$475

$1,901

$2,061

$3,802

None of the choices are correct.

1. Poplock LLC purchased a warehouse and land during the current year for $350,000. The purchase price was allocated as follows: $275,000 to the building and $75,000 to the land. The property was placed in service on August 12. Calculate Poplock's maximum depreciation for this first year. (Use MACRS Table 5.)  
   **Note: Round final answer to the nearest whole number.**

$2,648

$3,371

$3,751

$4,774

None of the choices are correct.

1. Tom Tom LLC purchased a rental house and land during the current year for $150,000. The purchase price was allocated as follows: $100,000 to the building and $50,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3.)

$1,605

$2,273

$2,408

$3,410

None of the choices are correct.

1. Tom Tom LLC purchased a rental house and land during the current year for $160,000. The purchase price was allocated as follows: $105,000 to the building and $55,000 to the land. The property was placed in service on May 22. Calculate Tom Tom's maximum depreciation for this first year. (Use MACRS Table 3.)   
   **Note: Round final answer to the nearest whole number.**

$1,685

$2,387

$2,568

$3,637

None of the choices are correct.

1. Simmons LLC purchased an office building and land several years ago for $250,000. The purchase price was allocated as follows: $200,000 to the building and $50,000 to the land. The property was placed in service on October 2. If the property is disposed of on February 27 during the 10th year, calculate Simmons's maximum depreciation in the 10th year. (Use MACRS Table 5.)

$641

$909

$5,128

$7,346

None of the choices are correct.

1. Which of the following assets is eligible for §179 expensing?

Used office machinery

Qualified improvement property

A new delivery truck

Used office furniture

All of the choices are correct.

1. Lenter LLC placed in service on April 29, 2024, machinery and equipment (seven-year property) with a basis of $1,600,000. Assume that Lenter has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus expensing). (Use MACRS Table 1.)

$228,640

$1,160,000

$1,220,000

$1,274,302

None of the choices are correct.

1. Littman LLC placed in service on July 29, 2024, machinery and equipment (seven-year property) with a basis of $600,000. Littman's income for the current year before any depreciation deduction was $100,000. Which of the following statements is true to maximize Littman's total depreciation deduction for 2024? (Use MACRS Table 1.)

Littman should take §179 expense equal to the maximum $1,220,000.

Littman should take no §179 expense.

Littman's §179 expense will be greater than $100,000.

Littman's §179 expense will be less than $100,000.

None of the choices are correct.

1. Crouch LLC placed in service on May 19, 2024, machinery and equipment (seven-year property) with a basis of $3,200,000. Assume that Crouch has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.)

$457,280

$850,000

$1,374,377

$1,220,000

None of the choices are correct.

1. Clay LLC placed in service machinery and equipment (seven-year property) with a basis of $3,450,000 on June 6, 2024. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation). (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$1,220,000

$493,005

$407,265

$1,195,827

None of the choices are correct.

1. Clay LLC placed in service machinery and equipment (seven-year property) with a basis of $3,575,000 on June 6, 2024. Assume that Clay has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignoring any possible bonus depreciation). (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

$1,220,000

$510,868

$425,140

$1,106,552

None of the choices are correct.

1. Bonnie Jo purchased a used camera (five-year property) for use in her sole proprietorship. The basis of the camera was $2,400. Bonnie Jo used the camera in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation deduction during the first year, assuming the sole proprietorship had a loss during the year. (Bonnie did not place the property in service in the last quarter.) (Use MACRS Table 1.)

$240

$288

$480

$2,400

None of the choices are correct.

1. Bonnie Jo purchased a used camera (five-year property) for use in her sole proprietorship. The basis of the camera was $3,700. Bonnie Jo used the camera in her business 60 percent of the time and used it for personal purposes the rest of the time during the first year. Calculate Bonnie Jo's depreciation deduction during the first year, assuming the sole proprietorship had a loss during the year. (Bonnie did not place the property in service in the last quarter.) (Use MACRS Table 1.)

$370

$444

$740

$3,700

None of the choices are correct.

1. Billie Bob purchased a used camera (five-year property) for use in his sole proprietorship in the prior year. The basis of the camera was $2,400. Billie Bob used the camera in his business 60 percent of the time during the first year. During the second year, Billie Bob used the camera 40 percent for business use. Calculate Billie Bob's depreciation deduction during the second year, assuming the sole proprietorship had a loss during the year. (Billie Bob did not place the asset in service in the last quarter.) (Use MACRS Table 1.)

$0

$48

$192

$336

None of the choices are correct.

1. Which of the following assets are eligible for bonus depreciation?

Used office machinery

Qualified improvement property

A new delivery truck

Used office furniture

All of the choices are correct.

1. Potomac LLC purchased an automobile for $30,000 on August 5, 2024. What is Potomac's depreciation deduction for 2024? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

$12,400

$4,287

$6,000

$30,000

None of the choices are correct.

1. Potomac LLC purchased an automobile for $30,600 on August 5, 2024. What is Potomac's depreciation deduction for 2024? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

$12,400

$4,373

$6,120

$30,600

None of the choices are correct.

1. Arlington LLC purchased an automobile for $60,000 on July 5, 2024. What is Arlington's depreciation deduction for 2024 if its business-use percentage is 75 percent? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

$4,250

$12,000

$9,000

$12,400

None of the choices are correct.

1. Arlington LLC purchased an automobile for $60,200 on July 5, 2024. What is Arlington's depreciation deduction for 2024 if its business-use percentage is 75 percent? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

$4,640

$12,040

$9,030

$12,400

None of the choices are correct.

1. Taylor LLC purchased an automobile for $70,000 on July 5, 2024. What is Taylor's maximum depreciation deduction for 2024 (including bonus depreciation) if its business use percentage is 100 percent? (Use MACRS Table 1 and Exhibit 10-10.)

$12,400

$14,000

$20,400

$70,000

None of the choices are correct.

1. Assume that Bethany acquires a competitor's assets on March 31st. The purchase price was $150,000. Of that amount, $125,000 is allocated to tangible assets, and $25,000 is allocated to goodwill (a §197 intangible asset). What is Bethany's amortization deduction for the current year?  
   **Note: Round final answer to the nearest whole number.**

$0

$1,250

$1,319

$1,389

None of the choices are correct.

1. Assume that Brittany acquires a competitor's assets on September 30th of Year 1 for $350,000. Of that amount, $300,000 is allocated to tangible assets and $50,000 is allocated equally to two §197 intangible assets (goodwill and a one-year noncompete agreement). Given that the noncompete agreement expires on September 30th of Year 2, what is Brittany's amortization deduction for the second year?  
   **Note: Round final answer to the nearest whole number.**

$0

$1,667

$2,917

$3,333

None of the choices are correct.

1. Jasmine started a new business in the current year. She incurred $10,000 of start-up costs. How much of the start-up costs can be immediately deducted (excluding amounts amortized over 180 months) for the year?

$0

$2,500

$5,000

$10,000

None of the choices are correct.

1. Jasmine started a new business in the current year. She incurred $17,000 of start-up costs. How much of the start-up costs can be immediately deducted (excluding amounts amortized over 180 months) for the year?

$0

$2,500

$5,000

$17,000

None of the choices are correct.

1. Racine started a new business in the current year. She incurred $52,000 of start-up costs. If her business started on November 23rd of the current year, what is the total amount she may deduct with respect to the start-up costs for her initial year, rounded to the nearest whole number?

$2,555

$3,544

$5,522

$52,000

None of the choices are correct.

1. Daschle LLC completed some research and development during June of the current year. The related costs were $60,000. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization amount Daschle may deduct during the current year?

$0

$6,500

$6,000

$12,000

None of the choices are correct.

1. Daschle LLC completed some research and development during June of the current year. The related costs were $68,400. If Daschle wants to capitalize and amortize the costs as quickly as possible, what is the total amortization amount Daschle may deduct during the current year?

$0

$7,410

$6,840

$13,680

None of the choices are correct.

1. Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15th and the purchase price was $75,000. If the copyright has a remaining life of 75 months, what is the total amortization amount Jorge may deduct during the current year? (Assume this is not an asset acquisition to which §197 applies.)

$0

$5,500

$6,000

$12,000

None of the choices are correct.

1. Jorge purchased a copyright for use in his business in the current year. The purchase occurred on July 15thJuly 15th and the purchase price was $61,500. If the copyright has a remaining life of 75 months, what is the total amortization amount Jorge may deduct during the current year? (Assume this is not an asset acquisition to which §197 applies.)

$0

$4,510

$4,920

$9,840

None of the choices are correct.

1. Gessner LLC patented a process it developed in the current year. The patent is expected to create benefits for Gessner over a 10-year period. The patent was issued on April 15th and the legal costs associated with the patent were $43,000. In addition, Gessner had unamortized research expenditures of $15,000 related to the process. What is the total amortization amount Gessner may deduct for the patent during the current year?

$2,417

$2,174

$3,225

$4,350

None of the choices are correct.

1. Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimates that Santa Fe will recover 5,000 pounds of turquoise. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $200,000. What is Santa Fe's cost depletion deduction for the current year?

$60,000

$90,000

$110,000

$300,000

None of the choices are correct.

1. Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $924,000 for extraction rights. A geologist estimates that Santa Fe will recover 11,000 pounds of turquoise. During the current year, Santa Fe extracted 3,300 pounds of turquoise, which it sold for $587,000. What is Santa Fe's cost depletion deduction for the current year?

$184,800

$277,200

$334,640

$924,000

None of the choices are correct.

1. Santa Fe purchased the rights to extract turquoise on a tract of land over a five-year period. Santa Fe paid $300,000 for extraction rights. A geologist estimated that Santa Fe will recover 5,000 pounds of turquoise. During the past several years, 4,000 pounds were extracted. During the current year, Santa Fe extracted 1,500 pounds of turquoise, which it sold for $250,000. What is Santa Fe's cost depletion deduction for the current year?

$60,000

$90,000

$190,000

$160,000

None of the choices are correct.

1. Lucky Strike Mine (LLC) purchased a silver deposit for $1,500,000. It estimated it would extract 500,000 ounces of silver from the deposit. Lucky Strike mined the silver and sold it, reporting gross receipts of $1.8 million, $2.5 million, and $2 million for Years 1 through 3, respectively. During Years 1 through 3, Lucky Strike reported net income (loss) from the silver deposit activity in the amount of ($100,000), $400,000, and $100,000, respectively. In Years 1 through 3, Lucky Strike extracted 300,000 ounces of silver as follows:

|  |  |  |
| --- | --- | --- |
| **Ounces extracted per year** | | |
| **Year 1** | **Year 2** | **Year 3** |
| 50,000 | 150,000 | 100,000 |

What is Lucky Strike's depletion deduction for Year 2 if the applicable percentage depletion for silver is 15 percent?

$200,000

$375,000

$400,000

$450,000

None of the choices are correct.

1. Janey purchased machinery on April 8th of the current year. The relevant costs for the year are as follows: machinery for $10,000, $800 shipping, $50 for delivery insurance, $500 for installation, $750 for sales tax, $150 for the annual tune-up, and $200 of property taxes (an annual tax on business property). What is Janey's tax basis for the machinery?

1. Jaussi purchased a computer several years ago for $2,200 and used it for personal purposes. On November 10th of the current year, when the fair market value of the computer was $800, Jaussi converted it to business use. What is Jaussi's tax basis for the computer?

1. Flax LLC purchased only one asset this year. On January 16 Flax placed in service a computer (five-year property) with a basis of $14,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

1. Roth LLC purchased only one asset during the current year. On August 1st Roth placed in service office equipment (seven-year property) with a basis of $42,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention Table.)  
   **Note: Round final answer to the nearest whole number.**

1. Roth LLC purchased only one asset during the current year. On August 1stAugust 1st Roth placed in service office equipment (seven-year property) with a basis of $58,500. Calculate the maximum depreciation expense (ignoring §179 and bonus depreciation). (Use MACRS Half-Year Convention Table.)  
   **Note: Round final answer to the nearest whole number.**

1. Eddie purchased only one asset during the current year. On May 1st Eddie placed in service furniture (seven-year property) with a basis of $26,500. Calculate the maximum depreciation deduction, rounded to the nearest whole number (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

1. Amit purchased two assets during the current year. On April 16th Amit placed in service computer equipment (five-year property) with a basis of $5,000 and on September 9th placed in service furniture (seven-year property) with a basis of $20,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 1.)

1. Yasmin purchased two assets during the current year. On May 26th Yasmin placed in service computer equipment (five-year property) with a basis of $10,000 and on December 9th placed in service machinery (seven-year property) with a basis of $10,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)

1. Yasmin purchased two assets during the current year. On May May 26th May 26thYasmin placed in service computer equipment (five-year property) with a basis of $28,000 and on December 9thDecember 9th placed in service machinery (seven-year property) with a basis of $28,000. Calculate the maximum depreciation deduction (ignoring §179 and bonus depreciation). (Use MACRS Table 2.)  
   **Note: Round final answer to the nearest whole number.**

1. Bonnie Jo used two assets during the current year. The first was computer equipment with an original basis of $15,000, currently in the second year of depreciation and depreciated under the half-year convention. This asset was disposed of on October 1st of the current year. The second was furniture with an original basis of $24,000, placed in service during the first quarter, currently in the fourth year of depreciation, and depreciated under the mid-quarter convention. What is Bonnie Jo's depreciation deduction for the current year? (Use MACRS Table 1 and Table 2.)  
   **Note: Round final answer to the nearest whole number.**

1. Kristine sold two assets on March 20th of the current year. The first was machinery with an original basis of $51,000, currently in the fourth year of depreciation, and depreciated under the half-year convention. The second was furniture with an original basis of $16,000, placed in service during the fourth quarter, currently in the third year of depreciation, and depreciated under the mid-quarter convention. What is Kristine's depreciation deduction for the current year if the depreciation recovery period is seven years? (Use MACRS Table 1 and Table 2 and Exhibit 10-6.)  
   **Note: Round final answer to the nearest whole number.**

1. Kristine sold two assets on March 20thMarch 20th of the current year. The first was machinery with an original basis of $63,000, currently in the fourth year of depreciation, and depreciated under the half-year convention. The second was furniture with an original basis of $28,000, placed in service during the fourth quarter, currently in the third year of depreciation, and depreciated under the mid-quarter convention. What is Kristine's depreciation deduction for the current year if the depreciation recovery period is seven years? (Use MACRS Table 1 and Table 2 and Exhibit 10-6.)  
   **Note: Round final answer to the nearest whole number.**

1. Timothy purchased a new computer for his consulting practice on October 15th of the current year. The basis of the computer was $4,000. During the Thanksgiving holiday, he decided the computer did not meet his business needs and gave it to his college-aged son in another state. The computer was never used for business purposes again. Timothy had $50,000 of taxable income before depreciation. What is Timothy's total cost recovery deduction with respect to the computer during the current year?

1. During August of the prior year, Julio purchased an apartment building that he used as a rental property. The basis was $1,400,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 3.)

1. During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was $1,600,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 5.)

1. During April of the current year, Ronen purchased a warehouse that he used for business purposes. The basis was $1,607,000. Calculate the maximum depreciation deduction during the current year. (Use MACRS Table 5.)  
   **Note: Round final answer to the nearest whole number.**

1. An office building was purchased several years ago on December 9th for $2,500,000. The purchase price was allocated as follows: building $1,900,000, landscaping $100,000, and land $500,000. During the current year, the 10th year, the building was sold on March 10th. Calculate the maximum depreciation deduction for the real property during the current year, rounded to the nearest whole number. (Use MACRS Table 5.)

1. Olney LLC only purchased one asset this year. Olney LLC placed in service on July 19, 2024, machinery and equipment (seven-year property) with a basis of $1,330,000. Assume that Olney has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation). (Use MACRS Table 1.)

1. Columbia LLC only purchased one asset this year. Columbia LLC placed in service on July 9, 2024, machinery and equipment (seven-year property) with a basis of $3,100,000. Assume that Columbia has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but ignoring bonus depreciation) for the year. (Use MACRS Table 1.)

1. Northern LLC only purchased one asset this year. In 2024, Northern LLC placed in service on September 6th machinery and equipment (seven-year property) with a basis of $3,150,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1.)

1. Northern LLC only purchased one asset this year. In 2024, Northern LLC placed in service on September 6thSeptember 6th machinery and equipment (seven-year property) with a basis of $3,110,000. Assume that Northern has sufficient income to avoid any limitations. Calculate the maximum depreciation expense including §179 expensing (ignore any potential bonus expensing). (Use MACRS Table 1.)

1. Reid acquired two assets in 2024: on August 6th, he acquired computer equipment (five-year property) with a basis of $1,220,000 and on November 9th he acquired machinery (seven-year property) with a basis of $1,220,000. Assume that Reid has sufficient income to avoid any limitations. Calculate the maximum depreciation deduction, including §179 expensing (but not bonus depreciation). (Use MACRS Table 1, Table 2.)

1. Phyllis purchased $8,000 of specialized audio equipment that she uses in her business regularly. Occasionally, she uses the equipment for personal use. During the first year, Phyllis used the equipment for business use 70 percent of the time; however, during the current (second) year, the business use fell to 40 percent. Assume that the equipment is seven-year MACRS property and is under the half-year convention. Assume the ADS recovery period is 10 years. What is the depreciation allowance for the current year? (Use MACRS Table 1.)  
   **Note: Round final answer to the nearest whole number.**

1. Alexandra purchased a $75,000 automobile during 2024. The business use was 70 percent. What is the allowable depreciation for the current year? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

1. Alexandra purchased a $75,300 automobile during 2024. The business use was 73 percent. What is the allowable depreciation for the current year? (Ignore any possible bonus depreciation.) (Use MACRS Table 1 and Exhibit 10-10.)

1. Boxer LLC has acquired various types of assets recently used 100 percent in its trade or business. Below is a list of assets acquired during 2023 and 2024:

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset** | **Cost Basis** | **Convention** | **Date Placed in Service** |
| **Machinery** | $ 25,000 | Half-year | January 24, 2023 |
| **Warehouse** | 800,000 | Mid-month | August 1, 2023 |
| **Furniture** | 100,000 |  | October 5, 2024 |
| **Computer equipment** | 65,000 |  | October 10, 2024 |
| **Office equipment** | 34,000 |  | September 28, 2024 |
| **Automobile** | 65,000 |  | July 15, 2024 |
| **Office building** | 800,000 |  | September 24, 2024 |

Boxer did not elect §179 expense and elected out of bonus depreciation in 2023 but would like to take advantage of the §179 expense and bonus depreciation for 2024 (assume that taxable income is sufficient). Calculate Boxer's maximum depreciation deduction for 2024. (Use MACRS Table 1, MACRS Table 5, and Exhibit 10-10.)  
**Note: Round final answer to the nearest whole number.**

1. Assume that Yuri acquires a competitor's assets on May 1st. The purchase price was $500,000. Of that amount, $325,000 is allocated to tangible assets, and $175,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization deduction for the current year?   
   **Note: Round final answer to the nearest whole number.**

1. Assume that Yuri acquires a competitor's assets on May 1st. The purchase price was $540,000. Of that amount, $345,000 is allocated to tangible assets, and $195,000 is allocated to goodwill (a §197 intangible asset). What is Yuri's amortization deduction for the current year?  
   **Note: Round final answer to the nearest whole number.**

1. Assume that Cannon LLC acquires a competitor's assets on June 15th of year 1. The purchase price was $450,000. Of the amount, $196,200 is allocated to tangible assets, and $253,800 is allocated to three §197 intangible assets: $153,000 to goodwill, $50,400 to a customer list with an expected life of eight years, and $50,400 to a three-year noncompete agreement. On May 30th of year 2, the customer list is sold for $10,000.  
   **Note: Round your amortization and final answer to the nearest whole number. Round your allocation percentage to the nearest whole percentage, e.g., 0.1234 as 12 percent.**

What is Cannon's amortization deduction for year 2?

What is the basis of the intangibles at the end of year 2?

1. Oksana started an LLC on November 2 of the current year. She incurred $30,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

1. Oksana started an LLC on November 2 of the current year. She incurred $49,000 of start-up costs. How much of the start-up costs can be immediately expensed for the year? How much amortization may Oksana deduct in the first year?

1. Patin Corporation began business on September 23rd of the current year. It incurred $40,000 of start-up costs and $60,000 of organizational expenditures. How much total amortization may be deducted in the first year?   
   **Note: Round final answer to the nearest whole number.**

1. Paulman purchased a patent with a remaining life of 10 years on June 1 for $55,000. What is the amortization deduction with respect to the patent?  
   **Note: Round final answer to the nearest whole number.**

1. Paulman purchased a patent with a remaining life of 10 years on June 1 for $58,000. What is the amortization deduction with respect to the patent?  
   **Note: Round final answer to the nearest whole number.**

1. Sequoia purchased the rights to cut timber on several tracts of land over a 15-year period. It paid $500,000 for cutting rights. A timber engineer estimates that 500,000 board feet of timber will be cut. During the current year, Sequoia cut 45,000 board feet of timber, which it sold for $900,000. What is Sequoia's cost depletion deduction for the current year?

1. Sequoia purchased the rights to cut timber on several tracts of land over a 15-year period. It paid $501,000 for cutting rights. A timber engineer estimates that 501,000 board feet of timber will be cut. During the current year, Sequoia cut 46,000 board feet of timber, which it sold for $901,000. What is Sequoia's cost depletion deduction for the current year?

1. PC Mine purchased a platinum deposit for $3,500,000. It estimated it would extract 17,000 ounces of platinum from the deposit. PC mined the platinum and sold it, reporting gross receipts of $500,000 and $8 million for Years 1 and 2, respectively. During Years 1 and 2, PC reported net income (loss) from the platinum deposit activity in the amount of ($100,000) and $3,800,000, respectively. In Years 1 and 2, PC extracted 2,000 and 8,000 ounces of platinum. What is PC's depletion deduction for Years 1 and 2 if the applicable percentage depletion for platinum is 22 percent?  
   **Note: Round final answer to the nearest whole number.**

**Answer Key**Test name: Chapter 02 Test Bank - Static and Algo

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