

CPA REVIEW SCHOOL OF THE PHILIPPINES
Manila

CAPITAL ASSETS

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1. Determine whether ordinary asset or capital asset.
 - a. Inventories of raw materials, work in process and finished goods
 - b. Office equipment
 - c. Land used in business
 - d. Land for sale by a real estate dealer
 - e. Accounts receivable
 - f. Securities held as investment
 - g. Land held for investment purposes
 - h. Residential house
 - i. Business of sole proprietorship sold to a corporation
 - j. Interest of a partner in a partnership
 - k. Car used partly for business and partly for personal purposes.
2. This is capital asset
 - a. A residential land previously foreclosed by PNB and is now being offered for sale to the public
 - b. A commercial building foreclosed by a lending institution
 - c. A 10-door apartment unit owned by a retired government employee
 - d. A residential land owned by a practicing CPA
3. An individual taxpayer owns a ten (10)-door apartment with a monthly rental of P10,000 each residential unit. He sold this property to another individual taxpayer. Which is not correct?
 - a. The seller is not liable to pay the capital gains tax.
 - b. The property sold is a capital asset
 - c. The taxpayer is engaged in business
 - d. The rental income is subject to income tax using the graduated rates
4. Basic rule sale of capital assets, except
 - a. Sale of real property located in the Philippines by a foreign corporation is subject to 6% CGT based on the selling price or FMV, whichever is higher
 - b. Sale of shares of stock of a domestic corporation through the local stock exchange or initial public offering is exempt from income tax
 - c. Sale, by individual taxpayers and domestic corporations, of shares of stock of a domestic corporation not through the local stock exchange is subject to a final tax of 15%.
 - d. Sale of personal property located in the Philippines by a resident citizen is subject to the rules on holding period.
5. A. Capital losses are deductible from ordinary gains but net capital loss is not deductible from ordinary gains.
 B. Ordinary losses are deductible only to the extent of the capital gains but the net capital loss is not deductible from ordinary gain.
 - a. True, true
 - b. True, false
 - c. False, true
 - d. False, false
6. B had an original investment in a general professional partnership of P200,000 in 2017. His share in the net income of the partnership for 2017 which was credited to his capital account was P30,000. In 2018, P50,000 was credited to his capital account as his share in the partnership income, but he withdrew P10,000 from such share. He paid the income tax on his share in the partnership net income of 2017 and 2018. B retired at the end of 2018 and received P300,000. *Determine his capital gain or loss. Answer:*

7. A is a 40% partner in ABC, a general professional partnership. The partnership was organized in 2010 with A contributing P 200,000. The partnership had the following net income:

2017 – P 120,000 distributed to the partners
 2018 – P 70,000 not yet distributed to the partners.

In 2018, the partnership was dissolved and A received the sum of P 250,000 upon liquidation.

Determine the taxable gain or deductible loss of A. **Answer:**

8. Where the taxpayer is a corporation, which of the following statements is true?
- The holding period does not apply to corporations, hence, capital gains and losses are recognized at 50%.
 - The net capital loss can be carried over in the next succeeding year.
 - Capital loss is deductible only up to the extent of ordinary gains.
 - Ordinary loss is deductible from capital gains
9. The term "capital assets" include
- Stock in trade or other property included in the taxpayer's inventory.
 - Real property not used in the trade or business of taxpayer.
 - Property primarily for sale to customers in the ordinary course of his trade or business
 - Property used in the trade or business of the taxpayer and subject to depreciation.
10. Where taxpayer is a corporation, the following rules as to recognition of capital gains or losses from the disposition of property classified as capital asset shall apply. Which is the exception?
- The holding period does not apply to corporations, hence capital gains and losses are recognized at 100%.
 - Capital losses are deductible only to the extent of capital gains
 - Ordinary losses are deductible from capital gains but net capital loss cannot be deducted from ordinary gain.
 - Net capital loss carry-over should not exceed the net income in the year the loss was incurred
11. The following rules as to recognition of capital gains or losses from the disposition of personal property classified as capital asset apply where the taxpayer is an individual. Which is the exception?
- Depending on the holding period, the percentages of gain or loss is 100% if the capital asset has been held for 12 months or less; and 50% if the capital asset has been held for more than 12 months.
 - Capital losses are deductible only to the extent of the capital gains; hence, the net capital loss is not deductible.
 - Ordinary losses are deductible from capital gains but net capital loss cannot be deducted from ordinary gain.
 - Net capital loss carry over in a taxable year should not exceed the capital gain in the year the loss was incurred.

12. A, resident citizen, had the following data for the years 2015 to 2018.

	2015	2016	2017	2018
Ordinary Taxable Income	P 200,000	P 250,000	P 300,000	P 350,000
Gain from sale of capital assets:				
Held for 12 months	20,000	2,000	100,000	57,000
Held for 13 months	8,000	10,000	20,000	28,000
Loss from sale of capital assets:				
Held for 19 months	22,000	20,000	60,000	10,000
Held for 7 months	3,000	30,000	50,000	5,000
Status of the taxpayer	Single	Married	Married w/ 1 QDC	Married w/ 2 QDC

Required: Compute for the net taxable income of the taxpayer for the years, 2015 to 2018, under the graduated rates:

Answer: **2015:** **2017:**

2016:

2018:

13. The records of C, citizen, married, with 2 dependent children show the following for 2018:

Business income, net of P240,000 expense	P 160,000
Rental income, net of 5% W/T	95,000
Dividend received from a foreign corporation	20,000
Winnings from Phil. Charity Sweepstakes office	400,000
Other transactions:	

1. Sale of assets used in business:
 - a.) Delivery equipment – Selling price 200,000
Cost (2005) 300,000
Accumulated depreciation 60,000
 - b.) Land – Selling price 200,000
Cost (2002) 180,000
 - c.) Warehouse – Selling price 10,000,000
Cost (2003) 11,800,000
Accumulated depreciation 2,000,000
2. Sale of Capital assets:
 - a.) Jewelry – Selling price 250,000
Cost (2002) 180,000
 - b.) Land – Selling price 800,000
Cost (2000) 900,000
 - c.) Furniture & Appliances – Selling price 10,000
Cost (2010) 40,000
3. Shares of stocks:
 - a.) Traded in the stock exchange: Selling price 220,000
Cost (2004) 300,000
 - b.) Non-traded in the stock exchange: Selling price 300,000
Cost (2004) 180,000

Determine the taxable income of C. **Answer:**

14. C had the following transactions in GHI Corporation's common stock:

Oct. 10, 2018	Purchased 10,000 shares @ 50	P 500,000
Oct. 20, 2018	Purchased 4,000 shares @ 50	200,000
Nov. 10, 2018	Purchased 3,000 shares @ 48	144,000
Nov. 14, 2018	Sold the 10,000 shares purchased on 10/10/18 @ 45	450,000

Determine the loss sustained by C and state whether it is deductible or not.

Answer:

15. G, married, resident citizen had the following for 2018:

- a.) Business Income
 - 1.) Rental income from real property, net of 5% W/T P 285,000
Real property tax paid by the lessor 50,000
Note: The lessee reimbursed 50% of the tax, as per agreement in the lease contract
Deductible expense 120,000
 - 2.) Rental income from real property, net of 5% W/T P 142,500
Real property tax paid by the lessor 20,000
Note: The lessee reimbursed 100% of the tax, as per agreement in the lease contract
Deductible expense 40,000
- b.) Sale of capital assets:
 - 1.) Shares of ABC (domestic) not traded:

Selling Price	P 300,000	Cost (2004)	P 180,000
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 - 2.) Shares of DEF (domestic), traded:

Selling Price	P 100,000	Cost (2012)	P 150,000
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Tax 85-09

3.) Shares of XYZ (foreign)			
Selling Price	P 500,000	Cost (2000)	P 100,000
4.) Vacant lot			
Selling Price	P 800,000	Cost (2000)	P 200,000
5.) Toyota Car			
Selling Price	P 100,000	Cost (2000)	P 300,000

c.) Other transactions:

- 1.) In 2000, he purchased shares of A Corporation for P50,000 which became worthless and was written off in 2018.
- 2.) In 2018, he received liquidating dividend from B Corporation in the amount of P450,000. The investment in 2000 was P300,000.

Determine the taxable income of G.

16. A domestic corporation had the following data for taxable year 20-A and 20-B

	20-A	20-B
Taxable income before capital assets transaction	P 400,000	P 500,000
Gain from sale of capital assets:		
Held for 12 months	20,000	23,000
Held for 9 months	5,000	10,000
Loss from sale of capital assets:		
Held for 15 months	7,000	15,000
Held for 22 months	25,000	12,000

Required: Compute for the taxable net income of the corporation for the year 20-A to 20-B.

Answer: 20-A:

20-B:

17. D had the following transactions in JKL Corporation for the year 2017:

Oct. 10, 2017	Purchased 10,000 shares @ P100	P 1,000,000
Oct. 28, 2017	Purchased 5,000 shares @ P98	490,000
Nov. 24, 2017	Sold the 10,000 shares purchased on 10/10/17 @ P92	920,000
Dec. 10, 2017	Purchased 3,000 shares @ P90	270,000

- a. Determine the loss sustained by D and indicate whether it is deductible or not.

Answer:

- b. If the shares acquired on October 28, 2017 are sold today at P100 per share, determine D's gain or loss

Answer:

18. A transferred his commercial land with a cost of P600,000 and with a FMV of P900,000 to ABC Corp. in exchange of the stock of the corporation with par value of P800,000. As a result of the transfer A gained control of the corporation. As a result,
- a. The gain recognized is the difference between the par value of the shares of stocks and the cost of the land
 - b. The loss recognized is the difference between the FMV of the land and the par value of the stocks.
 - c. No gain shall be recognized because the land was in exchange for shares of stock of a corporation and A became the majority stockholder thereof.
 - d. No loss shall be recognized because the par value of the shares is greater than the cost of the land.

The End!!!