

REG Certified Public Accountant (CPA) Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the exclusion limit for capital gains on the sale of a primary residence for single filers?**
 - A. \$150,000**
 - B. \$250,000**
 - C. \$500,000**
 - D. \$1,000,000**

- 2. What is the self-employment tax rate applied to net earnings from self-employment?**
 - A. 10%**
 - B. 12.4%**
 - C. 15.3%**
 - D. 20%**

- 3. Which form is essential for reporting an employee's tax withholdings?**
 - A. Form 1065**
 - B. Form 1040**
 - C. K-1 form**
 - D. W-2 form**

- 4. What rights do taxpayers have under the Taxpayer Bill of Rights?**
 - A. Right to be anonymous**
 - B. Right to be informed and to a fair tax system**
 - C. Right to not pay taxes**
 - D. Right to a government audit**

- 5. Which types of income are generally excluded from taxable income?**
 - A. Wages from employment**
 - B. Gifts, inheritances, and certain insurance payouts**
 - C. Dividends from stocks**
 - D. Interest from savings accounts**

- 6. What form should taxpayers use to apply for an Employer Identification Number (EIN)?**
- A. Form 1040**
 - B. Form SS-4**
 - C. Form W-2**
 - D. Form 1120**
- 7. What does Chapter 7 of the Bankruptcy Code provide for?**
- A. Reorganization of a debtor's business**
 - B. Liquidation of a debtor's estate**
 - C. Protection from creditors for family farmers**
 - D. Payment plans for individual debtors**
- 8. Losses on sales/exchanges are not recognized for tax purposes with which of the following?**
- A. Foreign entities**
 - B. Related parties**
 - C. Publicly traded companies**
 - D. Nonprofit organizations**
- 9. Define "tax evasion."**
- A. The legal reduction of taxable income**
 - B. The failure to pay any taxes owed**
 - C. The illegal act of not paying taxes owed by underreporting income or inflating deductions**
 - D. The avoidance of taxes through legal means**
- 10. What is the requirement for a gift to be excluded from tax?**
- A. The exclusion limit is \$15,000 per recipient for 2023**
 - B. The exclusion limit is \$17,000 per recipient for 2023**
 - C. The exclusion limit is \$20,000 per recipient for 2023**
 - D. The exclusion limit is \$10,000 per recipient for 2023**

Answers

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1. B
2. C
3. D
4. B
5. B
6. B
7. B
8. B
9. C
10. B

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Explanations

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1. What is the exclusion limit for capital gains on the sale of a primary residence for single filers?

- A. \$150,000
- B. \$250,000**
- C. \$500,000
- D. \$1,000,000

The exclusion limit for capital gains on the sale of a primary residence for single filers is \$250,000. This provision falls under the Internal Revenue Code Section 121, which allows individuals to exclude a certain amount of capital gains from taxable income when selling their primary residence. To qualify for the exclusion, the homeowner must have owned and used the property as their main home for at least two of the five years preceding the sale. This benefit is designed to provide relief to homeowners, allowing them to keep a significant portion of the profit from the sale of their home without having to pay capital gains tax. For married couples filing jointly, the exclusion limit is higher, at \$500,000, reflecting their ability to combine individual exclusions. However, for single filers, the limit remains firmly set at \$250,000, which serves as an essential tool in tax planning for individuals looking to sell their homes. Understanding this exclusion is crucial for effective tax management, especially for anyone considering the sale of their residence.

2. What is the self-employment tax rate applied to net earnings from self-employment?

- A. 10%
- B. 12.4%
- C. 15.3%**
- D. 20%

The self-employment tax rate applied to net earnings from self-employment is 15.3%. This rate comprises two components: 12.4% for Social Security and 2.9% for Medicare. Self-employed individuals are responsible for paying both the employee and employer sides of these taxes, which is why the percentage is higher than the rate that employed individuals pay, where typically only half of the self-employment taxes are withheld from wages. Specifically, the 12.4% Social Security tax applies to net earnings up to a certain income threshold known as the wage base limit, while the 2.9% Medicare tax applies to all net earnings, with an additional 0.9% surtax on earnings above a certain threshold. Understanding this tax structure is important for individuals engaged in self-employment as it directly impacts their overall tax liability and financial planning.

3. Which form is essential for reporting an employee's tax withholdings?

- A. Form 1065
- B. Form 1040
- C. K-1 form
- D. W-2 form**

The W-2 form is essential for reporting an employee's tax withholdings because it is specifically designed to provide both the employee and the IRS with a summary of the employee's earnings and the taxes that have been withheld from their paycheck throughout the year. Employers are required to issue W-2 forms to their employees by the end of January each year, detailing the total wages paid and the amounts withheld for federal income tax, Social Security, and Medicare taxes. This information is crucial for employees when they prepare their annual tax returns, as it affects their total tax liability and eligibility for refunds. In contrast, Form 1065 is used for reporting income, gains, losses, deductions, and credits for partnerships, and it does not pertain to individual employees' tax withholdings. Form 1040 is the individual income tax return that taxpayers file, but it does not itself report withholdings; instead, it utilizes the information provided on forms like the W-2. The K-1 form is issued to partners and shareholders in S corporations to report income, deductions, and credits, but it is not relevant to an individual employee's tax withholding situation.

4. What rights do taxpayers have under the Taxpayer Bill of Rights?

- A. Right to be anonymous
- B. Right to be informed and to a fair tax system**
- C. Right to not pay taxes
- D. Right to a government audit

The Taxpayer Bill of Rights outlines the fundamental rights that taxpayers have when dealing with the Internal Revenue Service (IRS) and the tax system. Among these rights, the right to be informed and to a fair tax system is pivotal. This means that taxpayers are entitled to clear, concise information about their tax obligations, the operations of the IRS, and any tax procedures that may affect them. This right empowers taxpayers by ensuring they receive timely assistance, access to the necessary forms, and information about how to comply with tax laws. Furthermore, this right emphasizes the notion of fairness in the tax system, assuring taxpayers that they are treated equitably and that there are protections in place against unfair practices. Taxpayers have the ability to question IRS decisions and appeal them, which fosters transparency and accountability in taxation. The other choices do not accurately reflect the rights established by the Taxpayer Bill of Rights. The right to be anonymous is not a recognized right under this framework, as taxpayers must provide certain identifying information. Additionally, the right to not pay taxes is misleading; while taxpayers may have legal means to reduce or eliminate tax liability through deductions and credits, they are required to fulfill their legal obligations as set forth in tax law. Lastly, the right to a government

5. Which types of income are generally excluded from taxable income?

- A. Wages from employment**
- B. Gifts, inheritances, and certain insurance payouts**
- C. Dividends from stocks**
- D. Interest from savings accounts**

The types of income that are generally excluded from taxable income include gifts, inheritances, and certain insurance payouts. This is based on the IRS guidelines that exempt these specific transfers from taxation to encourage the free transfer of property and to support individuals during times of loss or hardship. Gifts are amounts given without expectation of return, and the giver is generally responsible for any gift tax, not the recipient. Inheritances are similarly excluded to promote the passage of wealth between generations without the burden of additional taxes. Certain insurance payouts, particularly those related to life insurance benefits paid to beneficiaries, are also excluded to provide financial support during loss without taxation, thus ensuring the policy serves its intended purpose. In contrast, wages from employment, dividends from stocks, and interest from savings accounts are considered taxable income and are subject to various tax rates. Therefore, understanding these exclusions is crucial for accurate tax reporting and compliance, as they significantly impact an individual's overall tax liability.

6. What form should taxpayers use to apply for an Employer Identification Number (EIN)?

- A. Form 1040**
- B. Form SS-4**
- C. Form W-2**
- D. Form 1120**

To apply for an Employer Identification Number (EIN), taxpayers should use Form SS-4. This form is specifically designed for individuals and entities needing to obtain an EIN, which is essential for various tax and business purposes, including filing employment tax returns and business tax forms. Form 1040 is used by individuals to file their personal income tax returns, which does not pertain to EIN application. Form W-2 is a wage and tax statement provided by employers to report annual wages paid and taxes withheld for employees, not for obtaining an EIN. Similarly, Form 1120 is used by corporations to report their income, deductions, gains, and losses, and is not relevant to the application process for an EIN. Using Form SS-4 is the correct procedure and ensures that the application for an EIN is processed accurately and efficiently for various types of tax obligations.

7. What does Chapter 7 of the Bankruptcy Code provide for?

- A. Reorganization of a debtor's business
- B. Liquidation of a debtor's estate**
- C. Protection from creditors for family farmers
- D. Payment plans for individual debtors

Chapter 7 of the Bankruptcy Code specifically provides for the liquidation of a debtor's estate. This means that when an individual or business files for Chapter 7 bankruptcy, their non-exempt assets are sold off to pay creditors. The process is handled by a court-appointed trustee, who oversees the liquidation and ensures that the proceeds are distributed fairly among the creditors. During this process, individuals may retain certain exempt property, such as basic household items and a portion of equity in their homes, depending on state laws. Once the liquidation process is complete, the debtor typically receives a discharge of most debts, allowing them a fresh start financially. Reorganization, as mentioned in Chapter 11 of the Bankruptcy Code, is aimed at restructuring the debts rather than liquidation. Similarly, family farmers have specific protections outlined in Chapter 12, and individual debt repayment plans are covered under Chapter 13. Thus, the context of Chapter 7 as focusing on liquidation sets it apart from the other options presented.

8. Losses on sales/exchanges are not recognized for tax purposes with which of the following?

- A. Foreign entities
- B. Related parties**
- C. Publicly traded companies
- D. Nonprofit organizations

Losses on sales or exchanges are not recognized for tax purposes when the transaction involves related parties due to the specific tax rules designed to prevent taxpayers from taking advantage of losses to reduce tax liabilities. The Internal Revenue Code (IRC) has established provisions that disallow losses when the sale or exchange occurs between related parties, which are typically defined as individuals or entities with certain close relationships, such as family members or entities under common control. This provision aims to maintain the integrity of the tax system by preventing transactions that do not reflect an economic loss in a broader sense. In these situations, although a sale might technically result in a loss for accounting purposes, the IRS does not permit taxpayers to recognize those losses for tax purposes, thereby disallowing any tax benefits that could arise from them. Other scenarios, such as sales involving foreign entities, publicly traded companies, or nonprofit organizations, do not inherently carry the same restrictions concerning loss recognition. For instance, transactions with foreign entities or publicly traded companies may still allow loss recognition under certain conditions, while nonprofit organizations generally do not engage in typical business transactions designed for profit, making this issue less relevant in that context. Thus, transactions with related parties uniquely trigger the loss disallowance rules.

9. Define "tax evasion."

- A. The legal reduction of taxable income
- B. The failure to pay any taxes owed
- C. The illegal act of not paying taxes owed by underreporting income or inflating deductions**
- D. The avoidance of taxes through legal means

Tax evasion refers to the illegal act of deliberately avoiding paying taxes owed. This typically occurs when individuals or entities underreport their income, overstate deductions, or engage in other deceptive practices to misrepresent their financial situation to tax authorities. Such actions are against the law and can result in severe penalties, including fines and imprisonment. This definition aligns with the concept that tax evasion is not simply about not paying taxes but involves a willful intent to defraud the tax system by providing false information. Understanding tax evasion is critical as it is a serious offense, contrasting sharply with legitimate tax avoidance, where taxpayers utilize lawful strategies to minimize their tax liabilities without deceitful practices.

10. What is the requirement for a gift to be excluded from tax?

- A. The exclusion limit is \$15,000 per recipient for 2023
- B. The exclusion limit is \$17,000 per recipient for 2023**
- C. The exclusion limit is \$20,000 per recipient for 2023
- D. The exclusion limit is \$10,000 per recipient for 2023

The requirement for a gift to be excluded from tax hinges on the annual exclusion limit set by the IRS. For the year 2023, this limit has been established at \$17,000 per recipient. This means that individuals can give gifts up to this amount to as many recipients as they desire without incurring any gift tax or having to file a gift tax return. Gifts that fall under this limit are considered to be non-taxable for the giver, thus allowing for a strategy of wealth transfer without tax implications. It's important to stay updated with these limits, as they can change annually based on inflation adjustments or legislative decisions. In the context of the other options provided, limits of \$15,000, \$20,000, and \$10,000 do not reflect the current exclusion amount for 2023 and are, therefore, misleading in this scenario. The correct limit accurately reflects the IRS guidelines and ensures compliance with tax regulations regarding gifts.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://regcpa.examzify.com>

We wish you the very best on your exam journey. You've got this!

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