PTIN MODULE 4

INCOME REPORTING MASTERY

Homework Worksheet + Answer Key

Choose the best answer for each question. Complete the worksheet before reviewing the answer key.

Student Information

Name: ________________________________ Date: ____________________

1. What does Form W-2 primarily report?

- A. Business profit and expenses
- B. Wages and withholding
- C. Rental income
- D. Capital gains only

2. Which W-2 item should be investigated if it appears unusual or duplicated?

- A. Corrected or duplicate forms
- B. Only the employee's name
- C. Only Box 1 wages
- D. Nothing if the software accepts it

3. Why should Form 1099-K not be entered blindly as business profit?

- A. It can include personal reimbursements, refunds, sales tax, or gross receipts before fees
- B. It never reports payment activity
- C. It only reports cash wages
- D. It replaces the business's books

4. What should a preparer use to reconcile Form 1099-K activity?

- A. Only the form itself
- B. Books, bank records, and payment-platform reports
- C. A prior-year return only
- D. Social media posts

5. Which form may report rents, royalties, prizes, or other income?

- A. Form 1099-MISC
- B. Form W-2
- C. Form 1095-A
- D. Form 8332

6. What should be reviewed on Form 1099-R?

- A. Distribution code, taxable amount, rollover facts, basis, age, and possible additional-tax exceptions
- B. Only the payer's address
- C. Only state withholding
- D. Nothing if the taxpayer is retired

7. What is the starting point for Schedule C?

- A. A real business activity conducted for profit
- B. A list of expenses designed to reduce tax
- C. Any account labeled business
- D. A Form 1099 alone

8. Which question helps establish whether a Schedule C business is real and supportable?

- A. What service or product was provided?
- B. How large a refund does the client want?
- C. Can we remove all income with expenses?
- D. Did the client receive a W-2?

9. Can a personal expense become deductible simply because it was paid from a business account?

- A. Yes
- B. No
- C. Only if the client requests it
- D. Only if paid in cash

10. What additional tax may apply to net self-employment earnings?

- A. Self-employment tax
- B. Gift tax automatically
- C. Estate tax automatically
- D. No additional tax can apply

11. Which is a Schedule C red flag?

- A. Round-number expenses
- B. Detailed contemporaneous records
- C. A mileage log

D. Separate business and personal funds

12. Which is another red flag?

A. Expenses that exactly erase income

B. Reliable invoices

C. Business bank statements

D. Consistent platform records

13. Can incomplete records ever be reconstructed?

A. No, never

B. Yes, if the reconstruction is based on credible evidence rather than guesses

C. Yes, using any estimate the client wants

D. Only if the software creates the amount

14. Which source may help support a reasonable reconstruction?

A. Bank statements

B. Invoices

C. Calendars and platform histories

D. All of the above

15. How should estimates be handled when records are incomplete?

A. Hide that they are estimates

B. Clearly label them and retain the method used

C. Round them to convenient amounts

D. Use them without support

16. What should the preparer do if the taxpayer cannot establish a reasonable basis for an amount?

A. Claim it anyway

B. Do not claim the amount

C. Double it for safety

D. Use last year's number

17. What does Form 1099-NEC often indicate?

A. Business or gig activity

B. Marketplace health coverage

C. A dependent release

D. Only retirement income

18. Does receiving a Form 1099 by itself determine the business's final profit?

A. Yes

B. No

C. Only for gig workers

D. Only if no expenses exist

Answer Key

Check your answers after completing the worksheet.

1. B — Wages and withholding

2. A — Corrected or duplicate forms

3. A — It can include personal reimbursements, refunds, sales tax, or gross receipts before fees

4. B — Books, bank records, and payment-platform reports

5. A — Form 1099-MISC

6. A — Distribution code, taxable amount, rollover facts, basis, age, and possible additional-tax exceptions

7. A — A real business activity conducted for profit

8. A — What service or product was provided?

9. B — No

10. A — Self-employment tax

11. A — Round-number expenses

12. A — Expenses that exactly erase income

13. B — Yes, if the reconstruction is based on credible evidence rather than guesses

14. D — All of the above

15. B — Clearly label them and retain the method used

16. B — Do not claim the amount

17. A — Business or gig activity

18. B — No