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PREFACE

Although these practice sets are designed for use with the South-Western's Federal Taxation Series, they can be used effectively with most introductory textbooks on taxation. The practice sets should be assigned after coverage of the related materials as they are comprehensive and require substantial text coverage for successful completion.

Enclosed are solutions (filled-in forms) for the corporation, S corporation, and partnership practice sets. Solutions for practice sets for individual returns are published separately.

The instructor should read the facts for the practice set, the solution, and the "Information for Instructors" section of the solutions manual prior to assigning the practice set.

The "Information for Instructors" section should be very useful. It provides details on some of the more involved computations and identifies areas which the students may find challenging. By identifying these areas in advance, you can make a judgment about how difficult you want to make the practice set for your students. A particular issue can be mitigated or eliminated by (1) giving the students clues (or the solution) to that part of the practice set or (2) having the students delete information on the issue from the practice set. (*Caution:* Doing the latter may modify the solution). Thus, the practice sets can be adapted to your particular teaching environment.

We try to make the practice sets as useful as possible. All comments or suggestions will be appreciated.

Donald R. Trippeer
State University of New York - Oneonta
trippedr@oneonta.edu

SOLUTION TO CORPORATION PRACTICE SET

Canine Locator, Inc.

Canine Locator, Inc.

E. I. No. 98-7654321

A Schedule Attached to and Made Part of
2009 Form 1120—U.S. Corporation Income Tax Return

List of Attached Schedules

Schedule O—Consent Plan and Apportionment Schedule

Form 4626—Alternative Minimum Tax—Corporations

Form 4562—Depreciation and Amortization

Schedule D (Form 1120)—Capital Gains and Losses

Schedule G (Form 1120)—Information on Certain Persons Owning the Corporation's Voting
Stock

Attachment—Supporting Details

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Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2009 or tax year beginning _____, ending _____ ▶ See separate instructions.		OMB No. 1545-0123 2009	
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return. <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH). <input type="checkbox"/> 3 Personal service corp. (see instructions). <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>		Use IRS label. Otherwise, print or type. Name Canine Locator, Inc. Number, street, and room or suite no. If a P.O. box, see instructions. 150 Setter St. City or town State ZIP code Colorado Springs CO 80908		B Employer identification number 98-7654321 C Date incorporated 3/14/2004 D Total assets (see instructions) \$ 2,249,120	
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change					

Income	1a Gross receipts or sales	5,669,272	b Less returns and allowances		c Bal ▶	1c 5,669,272
	2 Cost of goods sold (Schedule A, line 8)				2	4,723,354
	3 Gross profit. Subtract line 2 from line 1c				3	945,918
	4 Dividends (Schedule C, line 19)				4	94,339
	5 Interest				5	899
	6 Gross rents				6	
	7 Gross royalties				7	
	8 Capital gain net income (attach Schedule D (Form 1120))				8	
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)				9	
	10 Other income (see instructions—attach schedule)				10	600
	11 Total income. Add lines 3 through 10				11	1,041,756
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (Schedule E, line 4)				12	197,588
	13 Salaries and wages (less employment credits)				13	434,645
	14 Repairs and maintenance				14	6,360
	15 Bad debts				15	989
	16 Rents				16	29,779
	17 Taxes and licenses				17	68,450
	18 Interest				18	75,343
	19 Charitable contributions				19	8,788
	20 Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562)				20	115,277
	21 Depletion				21	
	22 Advertising				22	7,593
	23 Pension, profit-sharing, etc., plans				23	
	24 Employee benefit programs				24	
	25 Domestic production activities deduction (attach Form 8903)				25	
	26 Other deductions (attach schedule)				26	17,855
	27 Total deductions. Add lines 12 through 26				27	962,667
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11				28	79,089
	29 Less: a Net operating loss deduction (see instructions)	29a				
b Special deductions (Schedule C, line 20)	29b	60,655		29c	60,655	
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28 (see instructions)				30	18,434
	31 Total tax (Schedule J, line 10)				31	2,765
	32a 2008 overpayment credited to 2009	32a	382			
	b 2009 estimated tax payments	32b	4,234			
	c 2009 refund applied for on Form 4466	32c	()		d Bal ▶	32d 4,616
	e Tax deposited with Form 7004	32e				
	f Credits: (1) Form 2439 (2) Form 4136	32f	0			
	g Refundable credits from Form 3800, line 19c, and Form 8827, line 8c	32g			32h	4,616
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached				33	
	34 Amount owed. If line 32h is smaller than the total of lines 31 and 33, enter amount owed				34	0
35 Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid				35	1,851	
36 Enter amount from line 35 you want: Credited to 2010 estimated tax ▶ Refunded ▶				36	1,851	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here Signature of officer _____ Date _____ Title _____	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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Paid Preparer's Use Only	Preparer's signature SELF-PREPARED RETURN Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____	Firm's name (or yours if self-employed), address, and ZIP code _____ EIN _____ Phone no. _____ State _____ ZIP code _____
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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.
 (HTA)

Form 1120 (2009)

Form 1120 (2009) Canine Locator, Inc.

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Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year	1	459,364
2	Purchases	2	4,820,095
3	Cost of labor	3	
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule)	5	
6	Total. Add lines 1 through 5	6	5,279,459
7	Inventory at end of year	7	556,105
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	4,723,354

9a Check all methods used for valuing closing inventory:

(i) ☒ Cost

(ii) ☐ Lower of cost or market

(iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO **9d**

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☒ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☒ No
If "Yes," attach explanation

Schedule C Dividends and Special Deductions (see instructions)

	(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)	76,697	70	53,688
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	0
3 Dividends on debt-financed stock of domestic and foreign corporations		see instruct.	0
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		42	0
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	0
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	0
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	0
8 Dividends from wholly owned foreign subsidiaries		100	0
9 Total. Add lines 1 through 8. See instructions for limitation			43,013
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	0
11 Dividends from affiliated group members	17,642	100	17,642
12 Dividends from certain FSCs		100	0
13 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15 Foreign dividend gross-up			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities			
19 Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4	94,339		
20 Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			60,655

Schedule E Compensation of Officers (see instructions for page 1, line 12)

Note: Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1 Patrick S. O'Reilly	111-11-1111	100.00%	80.00%	%	127,021
Maggie M. O'Reilly	123-45-6789	100.00%	20.00%	%	70,567
		%	%	%	0
		%	%	%	0
		%	%	%	0
2 Total compensation of officers					197,588
3 Compensation of officers claimed on Schedule A and elsewhere on return					0
4 Subtract line 3 from line 2. Enter the result here and on page 1, line 12					197,588

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Schedule J Tax Computation (see instructions)			
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>	
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	2,765
3	Alternative minimum tax (attach Form 4626)		
4	Add lines 2 and 3		2,765
5a	Foreign tax credit (attach Form 1118)		
5b	Credit from Form 8834		
5c	General business credit (attach Form 3800)		
5d	Credit for prior year minimum tax (attach Form 8827)		
5e	Bond credits from Form 8912		
6	Total credits. Add lines 5a through 5e		0
7	Subtract line 6 from line 4		2,765
8	Personal holding company tax (attach Schedule PH (Form 1120))		
9	Other taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611 <input type="checkbox"/> Form 8697 <input type="checkbox"/> Form 8866 <input type="checkbox"/> Form 8902 <input type="checkbox"/> Other (attach schedule)		
10	Total tax. Add lines 7 through 9. Enter here and on page 1, line 31		2,765

Schedule K Other Information (see instructions)		Yes	No
1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____		
2	See the instructions and enter the:		
a	Business activity code no. <u>339900</u>		
b	Business activity <u>Manufacturing</u>		
c	Product or service <u>Pet Locator Chips</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)	X	
5	At the end of the tax year, did the corporation:	Yes	No
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv).	X	

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
Remote, Inc.	12-3456789	United States	85.000%

Form **1120** (2009)

Form 1120 (2009) **Canine Locator, Inc.**

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Schedule K *Continued*

- b** Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. . . . ☒ **X**
If "Yes," complete (i) through (iv).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

- 6** During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) ☒ **X**
If "Yes," file **Form 5452**, Corporate Report of Nondividend Distributions.
If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.
- 7** At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? ☒ **X**
For rules of attribution, see section 318. If "Yes," enter:
(i) Percentage owned ▶ _____ and (ii) Owner's country ▶ _____
(c) The corporation may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____
- 8** Check this box if the corporation issued publicly offered debt instruments with original issue discount ☐
If checked, the corporation may have to file **Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments.
- 9** Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ 1,165
- 10** Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 2
- 11** If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ☐
If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.
- 12** Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$ _____
- 13** Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? ☒ **X**
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ \$ _____

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		415,170		402,973
2a	Trade notes and accounts receivable	200,481		226,221	
b	Less allowance for bad debts	(12,703)	187,778	(13,937)	212,284
3	Inventories		459,364		556,105
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets	1,246,120		1,285,285	
b	Less accumulated depreciation	(201,419)	1,044,701	(298,736)	986,549
11a	Depletable assets				
b	Less accumulated depletion	()	0	()	0
12	Land (net of any amortization)		70,567		70,567
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()	0	()	0
14	Other assets (attach schedule)				20,642
15	Total assets		2,177,580		2,249,120
Liabilities and Shareholders' Equity					
16	Accounts payable		180,934		194,675
17	Mortgages, notes, bonds payable in less than 1 year		145,368		128,432
18	Other current liabilities (attach schedule)				
19	Loans from shareholders		684,502		736,280
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)				
22	Capital stock: a Preferred stock				
	b Common stock	89,100	89,100	89,100	89,100
23	Additional paid-in capital		757,706		757,706
24	Retained earnings—Appropriated (attach schedule)				
25	Retained earnings—Unappropriated		319,970		342,927
26	Adjustments to shareholders' equity (attach schedule)				
27	Less cost of treasury stock		()		()
28	Total liabilities and shareholders' equity		2,177,580		2,249,120

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

1	Net income (loss) per books	66,003	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	2,822		Tax-exempt interest \$ 1,165	
3	Excess of capital losses over capital gains	2,257			1,165
4	Income subject to tax not recorded on books this year (itemize): <u>Bad Debt Re</u> 600	600			
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$ 17,959	
b	Charitable contributions \$ 18,451		b	Charitable contributions \$	
c	Travel and entertainment \$ 706			Goodwill Amortizatio 1,376	
	Nondeductible Charitable Con 4,517				19,335
	See Statement 4,233	27,907	9	Add lines 7 and 8	20,500
6	Add lines 1 through 5	99,589	10	Income (page 1, line 28)—line 6 less line 9	79,089

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	319,970	5	Distributions: a Cash	43,046
2	Net income (loss) per books	66,003		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
		0			
4	Add lines 1, 2, and 3	385,973	7	Add lines 5 and 6	43,046
			8	Balance at end of year (line 4 less line 7)	342,927

Form 1120 (2009)

SCHEDULE O
(Form 1120)

(Rev. December 2009)
Department of the Treasury
Internal Revenue Service

**Consent Plan and Apportionment Schedule
for a Controlled Group**

▶ **Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-L, 1120-PC, 1120-REIT, or 1120-RIC.**
▶ **See separate instructions.**

OMB No. 1545-0123

Name

Canine Locator, Inc.

Employer identification number

98-7654321

Part I Apportionment Plan Information

- 1 Type of controlled group:
 - a ☒ Parent-subsidiary group
 - b ☐ Brother-sister group
 - c ☐ Combined group
 - d ☐ Life insurance companies only

- 2 This corporation has been a member of this group:
 - a ☒ For the entire year.
 - b ☐ From _____, 20____, until _____, 20____.

- 3 This corporation consents and represents to:
 - a ☐ Adopt an apportionment plan. All the other members of this group are adopting an apportionment plan effective for the current tax year which ends on _____, 20____, and for all succeeding tax years.
 - b ☐ Amend the current apportionment plan. All the other members of this group are currently amending a previously adopted plan, which was in effect for the tax year ending _____, 20____, and for all succeeding tax years.
 - c ☐ Terminate the current apportionment plan and not adopt a new plan. All the other members of this group are not adopting an apportionment plan.
 - d ☐ Terminate the current apportionment plan and adopt a new plan. All the other members of this group are adopting an apportionment plan effective for the current tax year which ends on _____, 20____, and for all succeeding tax years.

- 4 If you checked box 3c or 3d above, check the applicable box below to indicate if the termination of the current apportionment plan was:
 - a ☐ Voluntary
 - b ☐ Involuntary

- 5 If you did not check a box on line 3 above, check the applicable box below concerning the status of the group's apportionment plan (see instructions).
 - a ☐ No apportionment plan is in effect and none is being adopted.
 - b ☒ An apportionment plan is already in effect. It was adopted for the tax year ending 12/31, 2007, and for all succeeding tax years.

- 6 If all the members of this group are adopting a plan or amending the current plan for a tax year after the due date (including extensions) of the tax return for this corporation, is there at least one year remaining on the statute of limitations from the date this corporation filed its amended return for such tax year for assessing any resulting deficiency? See instructions.
 - a ☐ Yes.
 - (i) ☐ The statute of limitations for this year will expire on _____, 20____.
 - (ii) ☐ On _____, 20____, this corporation entered into an agreement with the Internal Revenue Service to extend the statute of limitations for purposes of assessment until _____, 20____.
 - b ☐ No. The members may not adopt or amend an apportionment plan.

- 7 Required information and elections under section 1561. Check the applicable box(es) (see instructions).
 - a ☐ The corporation will determine its tax liability by applying the maximum tax rate under section 11 to the entire amount of its taxable income.
 - b ☐ The corporation and the other members of the group elect the FIFO method (rather than defaulting to the proportionate method) for allocating the group's section 11(b)(1) additional tax.
 - c ☐ The corporation has a short tax year that does not include December 31.

For Privacy Act and Paperwork Reduction Act Notice,
see Instructions for Form 1120.
(HTA)

Schedule O (Form 1120) (Rev. 12-2009)

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Schedule O (Form 1120) (Rev. 12-2009) Canine Locator, Inc.

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Part II Taxable Income Apportionment (See instructions)

Caution: Each total in Part II, column (g) for each component member must agree with Form 1120, page 1, line 30 or the comparable line of such member's tax return.

tax return.

(a) Group member's name and employer identification number		(b) Tax year end (Yr-Mo)	Taxable Income Amount Allocated to Each Bracket				(g) Total (add columns (c) through (f))
			(c) 15%	(d) 25%	(e) 34%	(f) 35%	
1 Canine Locator, Inc.	98-7654321	2009-12	18,434				18,434
2 Remote, Inc.	12-3456789	2009-12	31,566	25,000	25,000		81,566
3							0
4							0
5							0
6							0
7							0
8							0
9							0
10							0
Total			50,000	25,000	25,000	0	100,000

Schedule O (Form 1120) (Rev. 12-2009)

Schedule O (Form 1120) (Rev. 12-2009) Canine Locator, Inc.

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Part III **Income Tax Apportionment** (See instructions)

(a) Group member's name	Income Tax Apportionment						(h) Total income tax (combine lines (b) through (g))
	(b) 15%	(c) 25%	(d) 34%	(e) 35%	(f) 5%	(g) 3%	
1 Canine Locator, Inc.	2,765						2,765
2 Remote, Inc.	4,735	6,250	8,500				19,485
3							0
4							0
5							0
6							0
7							0
8							0
9							0
10							0
Total	7,500	6,250	8,500	0	0	0	22,250

Schedule O (Form 1120) (Rev. 12-2009)

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Schedule O (Form 1120) (Rev. 12-2009) Canine Locator, Inc.

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Part IV Other Apportionments (See instructions)					
(a) Group member's name	(b) Accumulated earnings credit	(c) AMT exemption amount	(d) Phaseout of AMT exemption amount	(e) Penalty for failure to pay estimated tax	(f) Other
1 Canine Locator, Inc.		20,000			
2 Remote, Inc.		20,000			
3					
4					
5					
6					
7					
8					
9					
10					
Total	0	40,000	0	0	0

Schedule O (Form 1120) (Rev. 12-2009)

Form 4626 <small>Department of the Treasury Internal Revenue Service</small>	Alternative Minimum Tax—Corporations ▶ See separate instructions. ▶ Attach to the corporation's tax return.	OMB No. 1545-0175 <div style="font-size: 2em; font-weight: bold;">2009</div>
Name Canine Locator, Inc.		Employer identification number 98-7654321
Part I Alternative Minimum Tax Computation		
<i>Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).</i>		
1 Taxable income or (loss) before net operating loss deduction	1	18,434
2 Adjustments and preferences:		
a Depreciation of post-1986 property	2a	21,057
b Amortization of certified pollution control facilities	2b	
c Amortization of mining exploration and development costs	2c	
d Amortization of circulation expenditures (personal holding companies only)	2d	
e Adjusted gain or loss	2e	
f Long-term contracts	2f	
g Merchant marine capital construction funds	2g	
h Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
i Tax shelter farm activities (personal service corporations only)	2i	
j Passive activities (closely held corporations and personal service corporations only)	2j	
k Loss limitations	2k	
l Depletion	2l	
m Tax-exempt interest income from specified private activity bonds	2m	
n Intangible drilling costs	2n	
o Other adjustments and preferences	2o	-12,781
3 Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1 through 2o	3	26,710
4 Adjusted current earnings (ACE) adjustment:		
a ACE from line 10 of the ACE worksheet in the instructions	4a	
b Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount (see instructions)	4b	
c Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c	0
d Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 4d (even if line 4b is positive)	4d	
e ACE adjustment.	4e	
• If line 4b is zero or more, enter the amount from line 4c		
• If line 4b is less than zero, enter the smaller of line 4c or line 4d as a negative amount		
5 Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT	5	26,710
6 Alternative tax net operating loss deduction (see instructions)	6	0
7 Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions	7	26,710
8 Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):		
a Subtract \$150,000 from line 7 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-	8a	0
b Multiply line 8a by 25% (.25)	8b	0
c Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-	8c	20,000
9 Subtract line 8c from line 7. If zero or less, enter -0-	9	6,710
10 If the corporation had qualified timber gain, complete Part II and enter the amount from line 24 here. Otherwise, multiply line 9 by 20% (.20)	10	1,342
11 Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	11	
12 Tentative minimum tax. Subtract line 11 from line 10	12	1,342
13 Regular tax liability before applying all credits except the foreign tax credit	13	2,765
14 Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	14	0
For Paperwork Reduction Act Notice, see the instructions. <small>(HTA)</small>		
Form 4626 (2009)		

14 ♦ SOLUTION TO CORPORATION PRACTICE SET

Form 4626 (2009) Canine Locator, Inc.

98-7654321

Page **2**

Part II **Alternative Tax for Corporations with Qualified Timber Gain.** Complete Part II only if the corporation had qualified timber gain under section 1201(b). See instructions.

15	Enter qualified timber gain from Schedule D (Form 1120), line 15, as refigured for the AMT, if necessary. If you are filing Form 1120-RIC, see instructions for the amount to enter	15	
16	Enter the amount from Schedule D (Form 1120), line 13, as refigured for the AMT, if necessary	16	
17	Enter the amount from Part I, line 9	17	
18	Enter the smallest of the amount on line 15, line 16, or line 17	18	0
19	Multiply line 18 by 15% (.15)	19	0
20	Subtract line 18 from line 17	20	0
21	Multiply line 20 by 20% (.20)	21	0
22	Enter the total of line 19 and line 21	22	0
23	Multiply line 17 by 20% (.20)	23	0
24	Enter the smaller of line 22 or line 23 here and on Part I, line 10	24	0

Form **4626** (2009)

Form 4562 Department of the Treasury Internal Revenue Service (99)	Depreciation and Amortization (Including Information on Listed Property) ▶ See separate instructions. ▶ Attach to your tax return.	OMB No. 1545-0172 2009 Attachment Sequence No. 67				
Name(s) shown on return Canine Locator, Inc.		Business or activity to which this form relates 1120 - Manufacturing				
		Identifying number 98-7654321				
Part I Election To Expense Certain Property Under Section 179 <i>Note: If you have any listed property, complete Part V before you complete Part I.</i>						
1 Maximum amount. See the instructions for a higher limit for certain businesses		1 250,000				
2 Total cost of section 179 property placed in service (see instructions).		2				
3 Threshold cost of section 179 property before reduction in limitation (see instructions).		3 800,000				
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-		4 0				
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions		5 250,000				
6 (a) Description of property		(b) Cost (business use only)				
		(c) Elected cost				
7 Listed property. Enter the amount from line 29		7				
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7		8 0				
9 Tentative deduction. Enter the smaller of line 5 or line 8		9 0				
10 Carryover of disallowed deduction from line 13 of your 2008 Form 4562.		10				
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions).		11				
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11		12 0				
13 Carryover of disallowed deduction to 2010. Add lines 9 and 10, less line 12		▶ 13 0				
<i>Note: Do not use Part II or Part III below for listed property. Instead, use Part V.</i>						
Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)						
14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions).		14				
15 Property subject to section 168(f)(1) election		15				
16 Other depreciation (including ACRS)		16				
Part III MACRS Depreciation (Do not include listed property.) (See instructions.)						
Section A						
17 MACRS deductions for assets placed in service in tax years beginning before 2009		17 115,277				
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		▶ <input type="checkbox"/>				
Section B - Assets Placed in Service During 2009 Tax Year Using the General Depreciation System						
(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19 a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	
				MM	S/L	
Section C - Assets Placed in Service During 2009 Tax Year Using the Alternative Depreciation System						
20 a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	
Part IV Summary (See instructions.)						
21 Listed property. Enter amount from line 28		21				
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions		22 115,277				
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs		23				

For Paperwork Reduction Act Notice, see separate instructions. (HTA)

Form 4562 (2009)

**SCHEDULE G
(Form 1120)**

Department of the Treasury
Internal Revenue Service

**Information on Certain Persons Owning the
Corporation's Voting Stock**

▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No.1545-0123

2009

Name Canine Locator, Inc.	Employer identification number (EIN) 98-7654321
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Part I **Certain Entities Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II **Certain Individuals and Estates Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
Patrick S. O'Reilly	111-11-1111	United States	80.000%
Maggie M. O'Reilly	123-45-6789	United States	20.000%

**For Paperwork Reduction Act Notice,
see the Instructions for Form 1120.**
(HTA)

Schedule G (Form 1120) 2009

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Canine Locator, Inc.

98-7654321

Line 10 (1120) - Other Income

1	Bad debt recoveries	1	600
2	Total other income	2	600

Line 26 (1120) - Other Deductions

1	From Form 4562 - Amortization	1	1,376
2	Travel, Meals and Entertainment		
	b Meals and entertainment, subject to 50% limit	2b	1,411
	c Meals and entertainment, subject to 80% limit (DOT)	2c	
	d Less disallowed	2d	706
	e Subtract line d from lines b and c	2e	705
3	Miscellaneous	3	15,774
4	Total other deductions	4	17,855
5	Total deductions less expenses for offsetting credits	5	17,855

Line 14, Sch L (1120) - Other Assets

		Beginning	End
1	Goodwill	1	20,642
2	Total other assets	2	0
			20,642

Line 4, Sch M-1 (1120) - Income Subject to Tax not Recorded on Books this Year

1	Bad Debt Recovery	1	600
2	Total. Enter on line 4, Schedule M-1	2	600

Line 5, Sch M-1 (1120) - Expenses Recorded on Books this Year not Deducted on Return

1	Charitable contributions	1	18,451
2	Travel and entertainment	2	706
3	Nondeductible Charitable Contributions	3	4,517
4	Excess Of Book Over Tax Bad Debt Expense	4	1,834
5	Fines For Improper Waste Disposal	5	2,399
6	Total. Enter on line 5, Schedule M-1	6	27,907

Line 7, Sch M-1 (1120) - Income Recorded on Books this Year not Included on Return

1	Tax-exempt interest income	1	1,165
2	Total. Enter on line 7, Schedule M-1	2	1,165

Line 8, Sch M-1 (1120) - Deductions on Return not Charged Against Book Inc this Year

1	Depreciation	1	17,959
2	Goodwill Amortization	2	1,376
3	Total. Enter on line 8, Schedule M-1	3	19,335

Canine Locator, Inc.

98-7654321

Line 2o (4626) - Other Adjustments

1	Income eligible for the possessions tax credit	1	
2	Income from the alcohol fuel credit	2	0
3	Income as the beneficiary of an estate or trust	3	0
4	Net AMT adjustment from an electing large partnership	4	0
5	Patron's AMT adjustment	5	
6	Cooperative's AMT adjustment	6	
7	Contribution AMT adjustment	7	
8	Domestic production activities deduction	8	
9	Installment sales	9	0
10	Accelerated depreciation of real property (pre-1987)	10	0
11	Accelerated depreciation of leased personal property (pre-1987) (personal holding companies only)	11	
12	Increase in Charitable Contribution Deduction	12	-2,106
13	Increase in Dividends Received Deduction	13	-10,675
14	Total other adjustments	14	-12,781

INFORMATION FOR INSTRUCTORS

CORPORATION PRACTICE SET (2010-2011 EDITION)

Canine Locator, Inc.

Following are details on some of the calculations in the solution. Observations are made on areas which the students may find more difficult. You can reduce the difficulty of the practice set if you so choose by providing your students “clues” (or even the solutions) in some or all of these areas. Paragraph references are to the facts for the practice set.

1. Computation of Cost of Goods Sold (Form 1120, Sch. A). Amounts for beginning and ending inventories and for cost of goods sold are provided. Students must “back into” the cost of purchases; e.g.,

Cost of Goods Sold		\$4,723,354
Inventory Adjustment		
Beginning inventory	\$459,364	
Ending inventory	<u>556,105</u>	<u>96,741</u>
Cost of Purchases		<u>\$4,820,095</u>

Easy

2. Para. 5. Bad Debts (Form 1120, p. 1, ln. 15). The reserve method is not allowable for Federal income tax purposes; the direct write-off method must be used. *Hard*
3. Para. 5. Recoveries of Bad Debts (Form 1120, p. 1, ln. 10). Canine Locator, Inc. has been profitable since inception; thus, prior bad debt deductions have provided tax benefits (i.e., the tax benefit rule does not apply to exclude the recoveries from income). Thus, the recoveries of bad debts are included in “Other Income.” Also, the recoveries should not be netted against the current year’s expense. *Hard*
4. Para. 6. Goodwill. For federal income tax, effective for property acquired after 08/10/94, IRC Sec. 197 provides that purchased goodwill is amortizable ratably over a 15-year period. “Other deductions—miscellaneous” is increased by \$1,376 [$\$20,642 \div 15$ years]. *Medium*
5. Para. 8. Nondeductible Portion of Meals and Entertainment Costs (Form 1120, p. 1, ln. 26). “Other deductions—miscellaneous” is reduced to eliminate the nondeductible 50% portion of meals and entertainment costs. *Easy*
6. Para. 9. Contributions (Form 1120, p. 1, ln. 19). The government of India is not a qualified charity as defined in IRC Sec. 170(c). *Easy*

7. Para. 9. Contributions (Form 1120, p. 1, ln. 19). The contribution to the Local Animal Shelter is deductible in 2010 rather than 2009. Contributions are deductible when paid, not when pledged (even for an accrual basis taxpayer). The exception for accrual basis corporations [IRC Sec. 170(a)(2)] does not apply because the payment was made after the 15th day of the third month following close of the tax year. *Hard*

8. Para. 10. Tax-Exempt Interest. Interest income from the City of Denver, Colorado General Obligation Bonds is excludible from gross income. *Easy*

9. Para. 11. Capital Loss (Form 1120, p. 1, ln. 8, and Sch. D). No net capital loss can be deducted by a corporation. The loss on sale of Nylon Corp. stock is subject to a 3-year carryback and 5-year carryover as a short-term capital loss. Carryback and/or carryover of the capital loss is not involved in the practice set. *Medium*

10. Calculation of the limit on the deduction for charitable contributions (Form 1120, p. 1, ln. 19). The limitation under IRC Sec. 170(b)(2) is $10\% \times \text{"taxable income base"}$ of $\$87,877 = \$8,788$. The "taxable income base" is taxable income before the contributions, dividends received, net operating loss carryback, and capital loss carryback deductions.

Procedural note. Wording in the Code and Regs. for this limitation follows the procedure below, starting with Taxable Income (TI) [Form 1120, p. 1, ln. 30]. When preparing the return, TI is not known (that is what we are trying to compute). Hence, it is not practical to start with TI; an alternate approach is necessary. First, all items of income and deduction (other than charitable contribution deduction and dividends received deduction) should be determined. Next, the "taxable income base" is computed by adding/subtracting all numbers for calculation of TI on Form 1120, p. 1 *except* deductions for contributions, dividends received, net operating loss carryback, and capital loss carryback. Note that the "taxable income base" is calculated **WITHOUT CONTRIBUTIONS DEDUCTION AND DIVIDENDS RECEIVED DEDUCTION**. Due to this, an interdependent effect (which would require use of simultaneous equations to solve) is avoided.

Proof:

Taxable income		\$18,434
Adjustments to eliminate deductions for:		
Contributions	\$ 8,788	
Dividends received	60,655	
Net operating loss carryback	-0-	
Capital loss carryback	-0-	
	<u>69,443</u>	
Taxable income before the contributions, dividends received, net operating loss carryback, and capital loss carryback deductions		\$87,877
Percentage limitation		<u>$\times 10\%$</u>
Limit on Charitable Contributions deduction		<u>\$ 8,788</u>

Very Hard

11. Para. 4. Dividends Received Deduction (Form 1120, Sch. C, ln. 11). To minimize current tax liability the corporation would elect to take the 100% dividends received deduction for the Remote, Inc. dividend. Such an election under IRC Secs. 243(a)(3) and (b)(2) is effective until terminated. This solution assumes the election has been made in the past and remains in effect. Accordingly, this solution does not contain an election statement.

Medium

12. Para. 4. Dividends Received Deduction (Form 1120, Sch. C, lns. 1 and 9). The dividends received deduction is generally 70% of dividends received from under-20%-owned corporations (80% for 20%-owned corporations, which is not involved in this practice set) [IRC Sec. 243(a)(1)]; i.e., $70\% \times \$76,697 = \$53,688$.

The deduction may be limited to 70% of a “taxable income base” (not to be confused with the taxable income base for contributions discussed above). For this purpose, the “taxable income base” is taxable income before deductions for net operating loss, 70% (or 80%) dividends received deduction, adjustment under IRC Sec. 1059, and capital loss carryback [IRC Sec. 246(b)(1)]. The limitation is $70\% \times \$61,447 = \$43,013$.

However, the taxable income limitation under IRC Sec. 246(b)(1) (above) does not apply in the year of a net operating loss [IRC Sec. 246(b)(2)]. Therefore, calculations are made under IRC Secs. 172(c) and (d) to determine if this is a year of the net operating loss. Taxable income before the dividends received deduction (\$18,434 taxable income + \$60,655 dividends received deduction = \$79,089) – the dividends received deduction before applying the taxable income limitation (\$53,688 + \$17,642 = \$71,330) = a positive adjusted taxable income of \$7,759. The positive result indicates this is not a year of a net operating loss; thus, the limitation under IRC Sec. 246(b)(1) applies. (In practice the net operating loss would be tested using a straightforward procedure similar to that used for charitable contributions above. Due to potential complexity for students to which this practice set is directed, numbers have been chosen which result in the net operating loss not being a factor in the solution for this practice set. This gives the instructor flexibility to cover or not cover the net operating loss rules.)

Because the limitation (\$43,013) is less than the basic dividends received deduction (\$53,688) and because this is not a year of a net operating loss, the dividends received deduction is limited to \$43,013 (Form 1120, p. 2, Sch. C, ln. 9).

Procedural note. Wording in the Code and Regs. for calculation of this limitation follows the procedure for the proof below, starting with Taxable Income (Form 1120, p. 1, ln. 30). When preparing the return, Taxable Income is not known (that is what we are trying to compute). Hence, it is not practical to start with Taxable Income; an alternate approach similar to that used (above) for charitable contributions is necessary. First, all items of income and deduction (other than dividends received deduction) should be determined. Next, the “taxable income base” is computed by adding/subtracting all numbers for calculation of taxable income on Form 1120, p. 1 *except* deductions for net operating loss, 70% (or 80%) dividends received deduction, adjustment under IRC Sec. 1059, and capital loss carryback. Calculation of the “taxable income base” WITHOUT THE 70% (or 80%)

DIVIDENDS RECEIVED DEDUCTION avoids an interdependent effect (which would require use of simultaneous equations to solve). However, deduction is taken for the 100% Dividends Received Deduction.

Proof:

Taxable income		\$18,434
Adjustments to eliminate deductions for:		
Net operating loss deduction	\$ -0-	
Dividends received deduction under the 70% taxable income limit	43,013	
Adjustment under IRC Sec. 1059 (related to extraordinary dividends)	-0-	
Capital loss carryback	<u>-0-</u>	<u>43,013</u>
Taxable income before the net operating loss, dividends received deduction under the 70% taxable income limit, adjustment under IRC Sec. 1059, and capital loss carryback		\$61,447
Percentage limitation		<u>× 70%</u>
Limit on Dividends Received Deduction under the 70% taxable income limit		<u>\$43,013</u>

Very Hard

- 13.** Related-party information (Form 1120, p. 3, “Additional Information,” ln. 4b. Under the attribution rules, both Patrick and Maggie are deemed to own 100% of the corporation’s stock.

Very Hard

- 14.** Para. 12. Tax Calculation (Form 1120, p. 3, Sch. J, ln. 2). Canine Locator, Inc. and Remote, Inc. are “related corporations” subject to limitations on certain multiple tax benefits under IRC Sec. 1561. IRC Sec. 1561(a)(1) provides that only one limit for each taxable income bracket in IRC Sec. 11(b)(1) [multiple surtax exemptions] and IRC Sec. 1561(a)(3) provides that only one \$40,000 exemption for purposes of calculating the AMT shall be allowed across all corporations in the controlled group.

Allocation of surtax exemption (i.e., TI taxed at the lower rates). Canine Locator, Inc. has TI < \$25,000. Accordingly, the \$50,000 surtax exemption for the 15% tax bracket is allocated to the extent it can be used. If this surtax exemption was allocated ½ to each corporation, the exemption in this bracket would not be fully utilized. In accordance with the agreement between Canine Locator, Inc. and Remote Corp., only \$18,434 of the surtax exemption in this rate bracket would be allocated to Canine Locator, Inc. (i.e., the lesser of \$25,000 or \$18,434). The remaining \$31,566 would be allocated to Remote, Inc. since that corporation has sufficient taxable income to utilize all of that remainder.

Very Hard

15. Alternative Minimum Tax (Form 4626).

Recalculation of Charitable Contributions Deduction (Form 4626, ln. 2o). The \$21,057 increase in income for AMT due to the depreciation adjustment requires recalculation of the limitation on the deduction for charitable contributions for AMT. The limit (and the resulting deduction for charitable contributions) is increased by $10\% \times \$21,057 = \$2,106$. That adjustment is entered as a negative on Form 4626, ln. 2o. *Very Hard*

Recalculation of the Dividends Received Deduction (Form 4626, ln. 2o). The \$21,057 increase in income for AMT due to the depreciation adjustment and the \$(2,106) decrease in income for AMT due to the adjustment for the charitable contributions deduction (see the above paragraph) require recalculation of the limitation on the dividends received deduction for AMT. See Item 12 above. An increase in the TI limitation of \$13,266 [$70\% \times (\$21,057 - \$2,106)$] will bring the TI limit for AMT to \$56,279 (\$43,013 TI limit + \$13,266). Since this limit exceeds the \$53,688 deduction available based on 70% of qualifying dividends (Form 1120, Sch. C, ln. 1, Col. c), the dividend received deduction is increased to \$53,688. Thus, the adjustment on Form 4626, ln. 2o is a negative \$(10,675) to increase the deduction from \$43,013 for regular tax to \$53,688 for AMT. *Very Hard*

AMT Exemption (Form 4626, lns. 8a and 8c). The AMT exemption allocated to Canine Locator, Inc. is $\frac{1}{2} \times \$40,000 = \$20,000$ (Form 4626, ln. 8c). Because the combined AMTI of Canine Locator, Inc. and Remote, Inc. ($\$26,710 + \$72,675 = \$99,385$) does not exceed \$150,000, there is no phase-down of the AMT exemption on Form 4626, ln. 8c. *Medium*

SOLUTION TO S CORPORATION PRACTICE SET

Dorm Digs Corp.

Dorm Digs Corp.

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1120S—U.S. Income Tax Return for an S Corporation

List of Attached Schedules

Schedule K-1 (Form 1120S)—Shareholder's Share of Income, Credits,
Deductions, etc.—Darlene Hanniford

Schedule K-1 (Form 1120S)—Shareholder's Share of Income, Credits,
Deductions, etc.—Carrie Harmon

Form 4562—Depreciation and Amortization

Form 4797—Sales of Business Property

Schedule D (Form 1120S)—Capital Gains and Losses and Built-in Gains

Attachment – Supporting Details

Election to Defer Recognition of Gain on Involuntary Conversion

Nondeductible Expenses (Form 1120S, Schedule K, Line 16c)

Details for Schedule M-1, Lines 2 and 3b

Details for Schedule M-2, Lines 3 and 5

Form 1120S Department of the Treasury Internal Revenue Service	U.S. Income Tax Return for an S Corporation ▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. ▶ See separate instructions.	OMB No. 1545-0130 <div style="font-size: 2em; font-weight: bold; margin-top: 10px;">2009</div>
For calendar year 2009 or tax year beginning _____, ending _____		
A S election effective date 7/1/2005 B Business activity code number (see instructions) 339900 C Check if Sch. M-3 attached <input type="checkbox"/>	Use IRS label. Other- wise, print or type. Name Dorm Digs Corp. Number, street, and room or suite no. If a P.O. box, see instructions. 200 College Court City or town State ZIP code Columbia SC 29201	D Employer identification number 12-3456789 E Date incorporated 7/1/2005 F Total assets (see instructions) \$ 528,836
G Is the corporation electing to be an S corporation beginning with this tax year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach Form 2553 if not already filed H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination or revocation I Enter the number of shareholders who were shareholders during any part of the tax year 2		
Caution. Include <u>only</u> trade or business income and expenses on lines 1a through 21. See the instructions for more information.		
Income	1a Gross receipts or sales 2,212,073 b Less returns and allowances c Bal ▶ 2 Cost of goods sold (Schedule A, line 8) 3 Gross profit. Subtract line 2 from line 1c 4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) 5 Other income (loss) (see instructions—attach statement) 6 Total income (loss). Add lines 3 through 5 ▶	1c 2,212,073 2 1,637,932 3 574,141 4 16,147 5 6 590,288
Deductions <small>(see instructions for limitations)</small>	7 Compensation of officers 8 Salaries and wages (less employment credits) 9 Repairs and maintenance 10 Bad debts 11 Rents 12 Taxes and licenses 13 Interest 14 Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562) 15 Depletion (Do not deduct oil and gas depletion.) 16 Advertising 17 Pension, profit-sharing, etc., plans 18 Employee benefit programs 19 Other deductions (attach statement) 20 Total deductions. Add lines 7 through 19 ▶ 21 Ordinary business income (loss). Subtract line 20 from line 6	7 106,102 8 240,068 9 12,775 10 11 25,013 12 22,696 13 12,175 14 59,311 15 16 6,847 17 18 10,223 19 3,641 20 498,851 21 91,437
Tax and Payments	22a Excess net passive income or LIFO recapture tax (see instructions) 22a b Tax from Schedule D (Form 1120S) 22b c Add lines 22a and 22b (see instructions for additional taxes) 22c 23a 2009 estimated tax payments and 2008 overpayment credited to 2009 23a b Tax deposited with Form 7004 23b c Credit for federal tax paid on fuels (attach Form 4136) 23c d Add lines 23a through 23c 23d 24 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/> 25 Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed 26 Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid 27 Enter amount from line 26 Credited to 2010 estimated tax ▶ Refunded ▶	22c 0 23d 0 24 25 0 26 0 27 0
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
Paid Preparer's Use Only	Signature of officer _____ Date _____ Title _____ Preparer's signature _____ Date _____ Check if self-employed <input type="checkbox"/> Preparer's SSN or PTIN _____ Firm's name (or yours if self-employed), address, and ZIP code _____ State _____ ZIP code _____	
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Form 1120S (2009)		

Form 1120S (2009) **Dorm Digs Corp.** 12-3456789 Page **2**

Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year	1	188,526
2	Purchases	2	1,631,026
3	Cost of labor	3	
4	Additional section 263A costs (attach statement)	4	
5	Other costs (attach statement)	5	
6	Total. Add lines 1 through 5	6	1,819,552
7	Inventory at end of year	7	181,620
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	1,637,932

9a Check all methods used for valuing closing inventory: (i) ☒ Cost as described in Regulations section 1.471-3
(ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
(iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO **9d**

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☒ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☒ No
If "Yes," attach explanation.

Schedule B Other Information (see instructions)

	Yes	No
1 Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶		
2 See the instructions and enter the: a Business activity ▶ Manufacturing b Product or service ▶ Furniture and Bedding		
3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a QSub election made?		X
4 Has this corporation filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		X
5 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. <input type="checkbox"/>		
6 If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain (defined in section 1374(d)(1)) in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years. ▶ \$		
7 Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$		
8 Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L and M-1.		X

Schedule K Shareholders' Pro Rata Share Items

	Total amount
1 Ordinary business income (loss) (page 1, line 21)	1 91,437
2 Net rental real estate income (loss) (attach Form 8825)	2
3a Other gross rental income (loss)	3a
b Expenses from other rental activities (attach statement)	3b
c Other net rental income (loss). Subtract line 3b from line 3a	3c 0
4 Interest income	4
5 Dividends: a Ordinary dividends	5a 1,962
b Qualified dividends	5b 1,962
6 Royalties	6
7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S))	7
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S))	8a 2,372
b Collectibles (28%) gain (loss)	8b
c Unrecaptured section 1250 gain (attach statement)	8c
9 Net section 1231 gain (loss) (attach Form 4797)	9 1,173
10 Other income (loss) (see instructions) Type ▶	10

Form **1120S** (2009)

Form 1120S (2009) Dorm Digs Corp.

12-3456789 Page 3

		Shareholders' Pro Rata Share Items (continued)		Total amount	
Deductions	11	Section 179 deduction (attach Form 4562)	11	114,692	
	12a	Contributions	12a	586	
	b	Investment interest expense	12b	1,056	
	c	Section 59(e)(2) expenditures (1) Type (2) Amount	12c(2)		
	d	Other deductions (see instructions) Type	12d		
Credits	13a	Low-income housing credit (section 42(j)(5))	13a		
	b	Low-income housing credit (other)	13b		
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468)	13c		
	d	Other rental real estate credits (see instructions) Type	13d		
	e	Other rental credits (see instructions) Type	13e		
	f	Alcohol and cellulosic biofuel fuels credit (attach Form 6478)	13f		
	g	Other credits (see instructions) Type	13g		
Foreign Transactions	14a	Name of country or U.S. possession			
	b	Gross income from all sources	14b		
	c	Gross income sourced at shareholder level Foreign gross income sourced at corporate level	14c		
	d	Passive category	14d		
	e	General category	14e		
	f	Other (attach statement) Deductions allocated and apportioned at shareholder level	14f		
	g	Interest expense	14g		
	h	Other Deductions allocated and apportioned at corporate level to foreign source income	14h		
	i	Passive category	14i		
	j	General category	14j		
	k	Other (attach statement) Other information	14k		
	l	Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	14l		
	m	Reduction in taxes available for credit (attach statement)	14m		
	n	Other foreign tax information (attach statement)			
Alternative Minimum Tax (AMT) Items	15a	Post-1986 depreciation adjustment	15a		
	b	Adjusted gain or loss	15b		
	c	Depletion (other than oil and gas)	15c		
	d	Oil, gas, and geothermal properties—gross income	15d		
	e	Oil, gas, and geothermal properties—deductions	15e		
	f	Other AMT items (attach statement)	15f		
Items Affecting Shareholder Basis	16a	Tax-exempt interest income	16a	439	
	b	Other tax-exempt income	16b		
	c	Nondeductible expenses	16c	6,256	
	d	Property distributions	16d	62,413	
	e	Repayment of loans from shareholders	16e		
Other Information	17a	Investment income	17a	1,962	
	b	Investment expenses	17b		
	c	Dividend distributions paid from accumulated earnings and profits	17c		
	d	Other items and amounts (attach statement)			
Reconciliation	18	Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	18	-19,390	

Form 1120S (2009)

Form 1120S (2009) **Dorm Digs Corp.**

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1 Cash			10,766		10,977
2a Trade notes and accounts receivable	44,232			27,917	
b Less allowance for bad debts			44,232		27,917
3 Inventories			188,526		181,620
4 U.S. government obligations					
5 Tax-exempt securities (see instructions)					
6 Other current assets (attach statement)					
7 Loans to shareholders					
8 Mortgage and real estate loans					
9 Other investments (attach statement)					
10a Buildings and other depreciable assets	279,404			329,584	
b Less accumulated depreciation	22,715		256,689	42,694	286,890
11a Depletable assets					
b Less accumulated depletion			0		0
12 Land (net of any amortization)					
13a Intangible assets (amortizable only)					
b Less accumulated amortization			0		0
14 Other assets (attach statement)			16,870		21,432
15 Total assets			517,083		528,836
Liabilities and Shareholders' Equity					
16 Accounts payable			17,314		20,316
17 Mortgages, notes, bonds payable in less than 1 year			20,999		22,055
18 Other current liabilities (attach statement)					
19 Loans from shareholders					
20 Mortgages, notes, bonds payable in 1 year or more			63,418		26,136
21 Other liabilities (attach statement)					
22 Capital stock			300,000		300,000
23 Additional paid-in capital					
24 Retained earnings			115,352		160,329
25 Adjustments to shareholders' equity (attach statement)					
26 Less cost of treasury stock					
27 Total liabilities and shareholders' equity			517,083		528,836

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return			
Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions			
1 Net income (loss) per books	107,390	5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize): <u>See Statement</u>	9,405	a Tax-exempt interest \$	439
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize):		6 Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize):	
a Depreciation \$		a Depreciation \$	142,002
b Travel and entertainment \$			
Key Person Life Insurance I	5,669		
<u>See Statement</u>	353		
4 Add lines 1 through 3	123,051	7 Add lines 5 and 6	142,441
		8 Income (loss) (Schedule K, line 18). Line 4 less line 7	-19,390

Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)			
	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of tax year	92,395		
2 Ordinary income from page 1, line 21	91,437		
3 Other additions	5,507	439	
4 Loss from page 1, line 21			
5 Other reductions	122,472	118	
6 Combine lines 1 through 5	66,867	321	0
7 Distributions other than dividend distributions	62,413	0	0
8 Balance at end of tax year. Subtract line 7 from line 6	4,454	321	0

Form **1120S** (2009)

Darlene Hanniford

111-11-1111

K-1 Statement (Sch K-1, Form 1120S)

Line 12 - Deductions

A Code A - Cash contributions (50%)	A	585
H Code H - Investment interest expense	H	1,054

Line 16 - Items affecting shareholder basis

A Code A - Tax-exempt interest income	A	438
C Code C - Nondeductible expenses	C	6,242
D Code D - Property distributions	D	62,276

Line 17 - Other Information

A Code A - Investment income	A	1,958
--	---	-------

For calendar year 2009, or tax
year beginning _____, 2009
ending _____, 20

► See back of form and separate instructions.

Part II Information About the Shareholder	
D Shareholder's identifying number	Shareholder: 2
123-45-6789	
E Shareholder's name, address, city, state, and ZIP code	
Carrie Harmon 45 Buckeye Dr. Columbia, SC 29202	
F Shareholder's percentage of stock ownership for tax year	0.219178%

For IRS Use Only

☐ Final K-1 ☐ Amended K-1

Carrie Harmon

123-45-6789

K-1 Statement (Sch K-1, Form 1120S)

Line 12 - Deductions

A Code A - Cash contributions (50%)	A	1
H Code H - Investment interest expense	H	2

Line 16 - Items affecting shareholder basis

A Code A - Tax-exempt interest income	A	1
C Code C - Nondeductible expenses	C	14
D Code D - Property distributions	D	137

Line 17 - Other Information

A Code A - Investment income	A	4
--	---	---

Form 4797 Department of the Treasury Internal Revenue Service (99)	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ▶ Attach to your tax return. ▶ See separate instructions.	OMB No. 1545-0184 2009 Attachment Sequence No. 27					
Name(s) shown on return Dorm Digs Corp.		Identifying number 12-3456789					
1 Enter the gross proceeds from sales or exchanges reported to you for 2009 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions). 1							
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)							
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
							0
							0
							0
3	Gain, if any, from Form 4684, line 43						3
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37						4
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5
6	Gain, if any, from line 32, from other than casualty or theft						6 1,173
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:						7 1,173
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.							
Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.							
8	Nonrecaptured net section 1231 losses from prior years (see instructions)						8
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)						9 0
Part II Ordinary Gains and Losses (see instructions)							
10	Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):						10
							0
							0
							0
11	Loss, if any, from line 7						11 ()
12	Gain, if any, from line 7 or amount from line 8, if applicable						12
13	Gain, if any, from line 31						13 16,147
14	Net gain or (loss) from Form 4684, lines 35 and 42a						14
15	Ordinary gain from installment sales from Form 6252, line 25 or 36						15
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824						16
17	Combine lines 10 through 16						17 16,147
For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:							
a	If the loss on line 11 includes a loss from Form 4684, line 39, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions						18a
b	Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14						18b 0

For Paperwork Reduction Act Notice, see separate instructions. Form **4797** (2009)

(HTA)

Form 4797 (2009)

Dorm Digs Corp.

12-3456789

Page **2**

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
(see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A Machinery	2/1/2008	11/1/2009
B Machinery Destroyed By Fire	7/1/2007	4/1/2009
C		
D		

These columns relate to the properties on lines 19A through 19D.		Property A	Property B	Property C	Property D
20 Gross sales price (Note: See line 1 before completing.)	20	59,821	18,180		
21 Cost or other basis plus expense of sale	21	58,648	23,460		
22 Depreciation (or depletion) allowed or allowable	22	15,563	11,149		
23 Adjusted basis. Subtract line 22 from line 21	23	43,085	12,311	0	0
24 Total gain. Subtract line 23 from line 20	24	16,736	584	0	0
25 If section 1245 property:					
a Depreciation allowed or allowable from line 22	25a	15,563	11,149		
b Enter the smaller of line 24 or 25a	25b	15,563	584	0	0
26 If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	26c	0	0	0	0
d Additional depreciation after 1969 and before 1976	26d				
e Enter the smaller of line 26c or 26d	26e	0	0	0	0
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g	0	0	0	0
27 If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b	0	0	0	0
c Enter the smaller of line 24 or 27b	27c	0	0	0	0
28 If section 1254 property:					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a				
b Enter the smaller of line 24 or 28a	28b	0	0	0	0
29 If section 1255 property:					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the smaller of line 24 or 29a (see instructions)	29b	0	0	0	0

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	17,320
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	16,147
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 37. Enter the portion from other than casualty or theft on Form 4797, line 6	32	1,173

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
(see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33	
34 Recomputed depreciation (see instructions)	34	
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35	0

Form **4797** (2009)

Form **4562**Department of the Treasury
Internal Revenue Service (99)**Depreciation and Amortization**
(Including Information on Listed Property)

▶ See separate instructions.

▶ Attach to your tax return.

OMB No. 1545-0172

2009

Attachment

Sequence No. **67**

Name(s) shown on return

Dorm Digs Corp.

Business or activity to which this form relates

1120S - Manufacturing

Identifying number

12-3456789

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount. See the instructions for a higher limit for certain businesses	1	250,000
2	Total cost of section 179 property placed in service (see instructions).	2	127,003
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	800,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	250,000
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	Machinery	114,692	114,692
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	114,692
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	114,692
10	Carryover of disallowed deduction from line 13 of your 2008 Form 4562.	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	201,404
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	114,692
13	Carryover of disallowed deduction to 2010. Add lines 9 and 10, less line 12	13	0

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2009	17	57,552
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		<input type="checkbox"/>

Section B - Assets Placed in Service During 2009 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19 a 3-year property						
b 5-year property						
c 7-year property		12,311	7	HY	200DB	1,759
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	
				MM	S/L	

Section C - Assets Placed in Service During 2009 Tax Year Using the Alternative Depreciation System

20 a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions	22	59,311
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

For Paperwork Reduction Act Notice, see separate instructions.

Form 4562 (2009)

(HTA)

2009

- ▶ Attach to Form 1120S.
- ▶ See separate instructions.

Employer identification number	12-3456789
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(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price	(e) Cost or other basis (see instructions)	(f) Gain or (loss) (Subtract (e) from (d))
1					
2 Short-term capital gain from installment sales from Form 6252, line 26 or 37				2	
3 Short-term capital gain or (loss) from like-kind exchanges from Form 8824				3	
4 Combine lines 1 through 3 in column (f)				4	(
5 Tax on short-term capital gain included on line 21 below				5	(
6 Net short-term capital gain or (loss). Combine lines 4 and 5. Enter here and on Form 1120S, Schedule K, line 7 or 10				6	

(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price	(e) Cost or other basis (see instructions)	(f) Gain or (loss) (Subtract (e) from (d))
7 450 Shrs. Yale Corp. Stock	7/3/2008	7/6/2009	2,959	587	2,372
8 Long-term capital gain from installment sales from Form 6252, line 26 or 37				8	
9 Long-term capital gain or (loss) from like-kind exchanges from Form 8824				9	
10 Capital gain distributions				10	
11 Combine lines 7 through 10 in column (f)				11	2,372
12 Tax on long-term capital gain included on line 21 below				12	()
13 Net long-term capital gain or (loss). Combine lines 11 and 12. Enter here and on Form 1120S, Schedule K, line 8a or 10				13	2,372

14	Excess of recognized built-in gains over recognized built-in losses (attach computation schedule)	14	
15	Taxable income (attach computation schedule)	15	
16	Net recognized built-in gain. Enter the smallest of line 14, line 15, or line 6 of Schedule B	16	
17	Section 1374(b)(2) deduction	17	
18	Subtract line 17 from line 16. If zero or less, enter -0- here and on line 21	18	0
19	Enter 35% of line 18	19	0
20	Section 1374(b)(3) business credit and minimum tax credit carryforwards from C corporation years	20	
21	Tax. Subtract line 20 from line 19 (if zero or less, enter -0-). Enter here and on Form 1120S, page 1, line 22b	21	0

Schedule D (Form 1120S) 2009

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Dorm Digs Corp.

12-3456789

Line 19 (1120S) - Other Deductions

1	Travel, Meals and Entertainment		
	a Travel	1a	1,609
	b Meals and entertainment, subject to 50% limit	1b	468
	c Meals and entertainment, subject to 80% limit (DOT)	1c	
	d Less disallowed	1d	234
	e Subtract line d from lines b and c	1e	234
2	Miscellaneous	2	1,798
3	Total other deductions	3	3,641

Dorm Digs Corp.

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1120S—U.S. Income Tax Return for an S Corporation

Election to Defer Recognition of Gain on Involuntary Conversion

On 04/01/09 a machine was destroyed by fire. Pursuant to IRC Sec. 1033(a)(1)(A), election is hereby made to defer recognition of gain from the casualty as follows:

Insurance proceeds		\$18,180
Cost of machine (07/01/07)	\$23,460	
Accumulated depreciation	<u>11,149</u>	(a) <u>12,311</u>
Realized gain		<u>\$ 5,869</u> (b)
Boot Received –		
Insurance proceeds	\$18,180	
Amount of qualified reinvestment –		
Cost of replacement machine	<u>17,596</u>	<u>584</u> (c)
Gain recognized [Lesser of (b) or (c)]		
(To Form 4797, p. 2, pt. III, ln. 24, Prop. B)		<u>\$ 584</u> (d)
Post 1961 depreciation taken [(a) above]		
(To Form 4797, p. 2, pt. III, ln. 25a, Prop. B)		<u>\$11,149</u> (e)
Gain recognized as ordinary income [Lesser of (d) or (e)]		
(To Form 4797, p. 2, pt. III, ln. 25b, Prop. B)		<u>\$ 584</u>

Dorm Digs Corp.

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1120S—U.S. Income Tax Return for an S Corporation

Nondeductible Expenses (Form 1120S, Schedule K, Line 16c)

Nondeductible Expenses –

Key-person life insurance premiums, net of \$822 dividend on the policy	\$5,669
Political contribution	235
Nondeductible 50% of meals and entertainment	234
Interest expense related to investment in tax-exempt bonds	<u>118</u>
Total Nondeductible Expenses for Schedule K, Line 16c	<u>\$6,256</u>

Dorm Digs Corp.

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1120S—U.S. Income Tax Return for an S Corporation

Details for Schedule M-1, Lines 2 and 3b

Form 1120S, Page 4, Schedule M-1, Line 2—Income included on
Schedule K, lines 1 through 10, not recorded on books this year

Excess of taxable gain (\$16,736) over financial gain (\$8,504) on sale of Machine #9	\$8,231
Excess of taxable gain on involuntary conversion of Machine #13 (\$584) over financial loss (\$590)	<u>1,174</u>
Total to Schedule M-1, Line 2	<u>\$9,405</u>

Form 1120S, Page 4, Schedule M-1, Line 3—Expenses recorded on books
this year not included on Schedule K, lines 1 through 12 and 14l

Travel and entertainment	\$ 234
Key-person life insurance premium (net of \$822 policy dividend)	5,669
Political contribution	235
Interest expense related to investment in tax-exempt bond	<u>118</u>
Total to Schedule M-1, Line 3b	<u>\$6,256</u>

Dorm Digs Corp.

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1120S—U.S. Income Tax Return for an S Corporation

Details for Schedule M-2, Lines 3 and 5

Form 1120S, Page 4, Schedule M-2, Line 3—Other additions

Separately stated items of income:

Dividend income	\$1,962
Long-term capital gain	2,372
Section 1231 gain on sale of Machine #9	<u>1,173</u>
Total to Schedule M-2, Line 3	<u>\$5,507</u>

Form 1120S, Page 4, Schedule M-2, Line 5—Other reductions

Separately stated items of deduction:

Contribution	\$ 86
Investment interest expense	1,056
Section 179 expense	<u>114,692</u>

Nondeductible expenses:

Key-person life insurance premium (net of \$822 policy dividend)	5,669
Political contribution	235
50% of meals and entertainment expenses	<u>234</u>

Total to Schedule M-2, Line 5\$122,472

INFORMATION FOR INSTRUCTORS

S CORPORATION PRACTICE SET (2010-2011 EDITION)

Dorm Digs Corp.

Following are details on some of the calculations in the solution. Observations are made on areas which the students may find more difficult. You can reduce the difficulty of the practice set if you so choose by providing your students “clues” (or even the solutions) in some or all of these areas. Paragraph references are to the facts for the practice set.

1. Dorm Digs Corp. has been an S corporation since inception, which was after the effective date of the 1982 Subchapter S Revision Act. Thus, the corporation has no C corporation earnings and profits, and the shareholders’ “previously taxed income” (Form 1120S, Sch. M-2, col. c) is zero.
2. Computation of Cost of Goods Sold (Form 1120S, Sch. A). Amounts for beginning and ending inventories and for cost of goods sold are provided. Students must “back into” the cost of purchases; e.g.,

Cost of Goods Sold		\$1,637,932
Inventory Adjustment		
Beginning inventory	\$188,526	
Ending inventory	<u>181,620</u>	(6,906)
Cost of Purchases		<u>\$1,631,026</u>

Easy

3. Shareholders’ percentages of stock (Schedules K-1, Item H). The shareholders’ percentages of stock are computed as follows:

	<u>% of Stock Owned</u>		<u>% of Tax Year Held</u>		<u>% of Ownership For The Year</u>	
Darlene Hanniford	100%	×	285/365	=	78.0822%	
	99%	×	80/365	=	<u>21.6986%</u>	99.78%
Carrie Harmon	1%	×	80/365	=		<u>.22%</u>
						<u>100.0%</u>

The date of purchase/sale is counted as the buyer’s day of ownership.

Medium

4. Para. 1. Fringe benefits (group term life insurance premiums) for 2% shareholder vs. non-2% shareholder. Darlene Hanniford is a “2% shareholder” as defined by IRC Sec. 1372(a). Carrie Harmon is not a “2% shareholder,” as she owns only 1% of the stock of the corporation and Darlene’s stock is not attributed to her cousin under IRC Sec. 318 attribution rules. No adjustment is required for the \$380 premium paid on behalf of Carrie.

Generally no income is imputed to an employee for group term life insurance provided by an employer not in excess of \$50,000 of coverage (IRC Sec. 79). However, IRC Sec. 1372(a) requires that 2% shareholders (i.e., Darlene) be “treated as a partner of a partnership.” Accordingly, the \$533 premium paid for Darlene Hanniford is reclassified and included in “Compensation of officers” (Form 1120S, p. 1, ln. 7). As compensation, the \$533 is includible in the W-2 filed by the corporation for Darlene. The corporation deducts the officer’s compensation. Darlene includes the amount in her salary income and is, in substance, treated as having paid the group term life insurance premium on her own behalf, which, of course, would not be separately deductible on her personal income tax return. *Medium*

5. Para. 3. 50% Deductibility of Meals and Entertainment Expenses (Form 1120S, ln. 19). When an employer has a qualified accountable plan under which an employee incurs expenses on the employer’s behalf and adequately accounts to the employer for the amount of the expense incurred, the employee is in substance treated as an agent for the employer. The employee reports no income and takes no deduction. The expense is treated as incurred by the employer. Thus, the 50% disallowance under IRC Sec. 274(h) applies to the employer.

Fifty percent (50%) of meals (\$293) and entertainment (\$175) are deductible by the S corporation (total nondeductible, \$234). The nondeductible amount reduces Other Deductions (Form 1120S, p. 1, ln. 19); is reported on Schedules K and K-1, ln. 16c to provide stock basis adjustment information to the shareholders; and is shown on Form 1120S, p. 4, Sch. M-1, ln. 3b and on Form 1120S, p. 4, Sch. M-2, ln. 5, col. (a) [Accumulated Adjustments Account] as nondeductible expense. *Medium*

6. Paras. 4 and 6. Key-person life insurance premium and dividend. On a key-person life insurance policy, the company is the owner and beneficiary of the policy. Life insurance proceeds payable by reason of death are excludible. Accordingly, the \$6,491 premium paid by Dorm Digs Corp. on the policy, on which it can receive proceeds tax free, is not deductible. For income tax purposes, the dividend of \$822 on the policy is considered to be a return of excess premium. Because the premium is not deductible, the returned portion of the premium is not taxable. The net \$5,669 is reported on Schedules K and K-1, ln. 16c to provide stock basis adjustment information to the shareholders and is shown on Form 1120S, p. 4, Sch. M-1, ln. 3b and on Form 1120S, p. 4, Sch. M-2, ln. 5, col. (a) [Accumulated Adjustments Account] as nondeductible expense. *Easy*

7. Para. 5. Contributions. The \$586 contribution to Sierra Club is a separately stated item and is shown on Form 1120S, p. 3, ln. 12a for allocation to the shareholders. The \$235 political contribution is not deductible. That amount is shown on Form 1120S, p. 4, Sch. M-1, ln. 3b; on Form 1120S, p. 4, Sch. M-2, ln. 5; and on Form 1120S, p. 3, Sch. K, ln. 16c to provide stock basis adjustment information to shareholders. *Easy*

8. Tax depreciation is computed as follows:

Depreciation/Cost Recovery Information

Tax Depreciation Information	<u>Balance</u> <u>12/31/08</u>	<u>2009</u> <u>Additions</u>	<u>2009</u> <u>Retirements</u>	<u>Balance</u> <u>12/31/09</u>	<u>Balance</u> <u>12/31/08</u>	<u>2009</u> <u>Provision</u>	<u>2009</u> <u>Retirements</u>	<u>Balance</u> <u>12/31/09</u>
Machinery Acquired on:								
07/01/07	\$ 23,460		(\$23,460)	\$ 0	\$ 9,097	\$ 2,052	(\$11,149)	\$ 0
02/01/08	58,648		(58,648)	0	8,381	7,182	(15,563)	0
02/01/08	197,296			197,296	28,194	48,318		76,512
05/01/09		\$ 114,692		114,692		114,692		114,692
08/01/09	<u> </u>	<u>12,311</u>	<u> </u>	<u>12,311</u>	<u> </u>	<u>1,759</u>	<u> </u>	<u>1,759</u>
Total	<u>\$279,404</u>	<u>\$127,003</u>	<u>(\$82,108)</u>	<u>\$324,299</u>	<u>\$45,672</u>	<u>\$174,003</u>	<u>(\$26,712)</u>	<u>\$192,963</u>

The adjusted basis for the machinery and equipment placed in service on 08/01/09 is calculated as follows:

Cost of M&E purchased	\$17,596
Less deferred gain on involuntary conversion	<u>(5,285)</u>
Tax basis in replacement M&E	<u>\$12,311</u>

The \$142,002 difference between tax depreciation (\$174,003) and financial depreciation \$32,001 is shown on Form 1120S, p. 4, Sch. M-1, ln. 6a. *Hard*

9. Para. 11. Form 4797, Part III, Casualty, Machine #13. The taxable gain on the casualty is subject to recapture of depreciation under IRC Sec. 1245. In order to apply depreciation recapture, the casualty should be reported in Part III of Form 4797. Since all recognized gain is ordinary, there is no remaining gain to take to Form 4684 (Casualties and Thefts) pursuant to instructions on Form 4797, Part III, ln. 32. Form 4684 should not be completed. My experience is that students feel very uneasy not completing every form they are provided. Only the independent thinker says, “Hey, I don’t need this form,” and feels confident enough to turn in the solution without the form enclosed. As a result, it is anticipated that a good number of students will put the information on Form 4684. *Hard*

- 10.** Para. 11. Involuntary conversion—Election to defer gain. To minimize current taxable income as directed, the election should be made to defer gain on the casualty pursuant to IRC Sec. 1033(a)(2)(A). Reg. 1.1033(a)-2(c)(2) requires that “all of the details in connection with an involuntary conversion of property at a gain (including those relating to the replacement of the converted property . . .) shall be reported in the return for the taxable year or years in which any of such gain is realized.” Such an election should be included in the return. No particular form is required. See the schedule attached to the return. The \$1,174 difference between the \$(590) financial loss and the \$584 taxable gain is shown on Form 1120S, p. 4, Sch. M-1, ln. 2. *Medium*
- 11.** Para. 10. Gain on sale of machine to an unrelated party (Form 4797, p. 2, pt. III). Sec. 1245 recapture applies. Excess of gain realized (\$16,736) over the depreciation recaptured as ordinary income (\$15,563) is reported as Sec. 1231 gain (\$1,173). The excess of tax gain over financial gain (\$8,505) is shown on Form 1120S, p. 4, Sch. M-1, ln. 2. *Easy*
- 12.** Para. 12. Investment interest expense related to taxable investment. The \$1,056 investment interest related to purchase of stock of Yale Corp. is separately stated on Form 1120S, p. 3, Sch. K, ln. 12b. *Easy*
- 13.** Paras. 12 and 14. Tax-exempt interest income and related investment interest expense and Form 1120S, p. 4, Sch. M-2—Other Adjustments Account. The \$439 of interest income is excludible as interest on a local obligation. That amount is shown on Form 1120S, p. 4, Sch. M-1, ln. 5a. Also, that amount is shown on Form 1120S, p. 3, Sch. K, ln. 16a to provide shareholders’ information needed to adjust bases in their S corporation stock. The \$118 investment interest expense related to the investment is not deductible and is shown on Form 1120S, p. 4, Sch. M-1, ln. 3b and (for shareholders’ stock basis adjustment) on Form 1120S, p. 3, ln. 16c. *Easy*

Other Adjustments Account. The \$439 tax-exempt income and the related (\$118) nondeductible interest expense are shown in Sch. M-2 column b on lines 3 and 5, respectively, as an adjustment to the “Other Adjustments Account.” *Hard*

- 14.** Para. 13. Price at which the Yale Corp. stock was sold. Students will have to “back into” the sales price for the 450 shares of Yale Corp. stock sold. In the process they must understand operation of the stock split concepts and basis rules. Sales proceeds are calculated as follows:

Gain on sale of the investment	\$2,372
+ Basis allocated to the shares sold	
450 shs. sold / 5,400 total shs. × \$7,038 cost =	<u>587</u>
Sales Proceeds	<u>\$2,959</u>

The stock was held for more than one year and is reportable as long-term capital gain on Form 1120S, Sch. D. The total long-term capital gain is carried forward from Sch. D to Form 1120S, p. 2, Sch. K, ln. 8a for allocation to the shareholders. *Easy*

- 15.** Para. 7. Reconciliation of Accumulated Adjustments Account and Other Adjustment Account balances in Sch. M-2 with the Balance of Retained Earnings Per Books at end of the year.

This reconciliation is for instructors' information. Its inclusion is not required in the tax return.

Accumulated Adjustments Account (AAA) at 12/31/09:		
Form 1120S, p. 4, Sch. M-2, ln. 8, col. (a)		\$ 4,454
Other Adjustments Account at 12/31/09:		
Form 1120S, p. 4, Sch. M-2, ln. 8, col. (b)		<u>321</u>
Total AAA and Other Adjustments Account at 12/31/09.....		\$ 4,775
Excess of tax over book accumulated depreciation at 12/31/09:		
Accumulated depreciation for tax	\$192,963	
Accumulated depreciation for book	<u>42,694</u>	150,269
Excess of realized gain (\$5,869) over recognized gain (\$584) on involuntary conversion of Machine #13 for tax purposes. This gain is deferred by reducing the tax basis in the replacement machine and can be seen by subtracting the tax basis from the book basis of the replacement machine		
		<u>5,285</u>
Retained earnings, per books		<u>\$160,329</u>

SOLUTION TO PARTNERSHIP PRACTICE SET

The Rainforest Umbrella Company

The Rainforest Umbrella Company

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1065—U.S. Partnership Return of Income

List of Attached Schedules

Schedule K-1 (Form 1065)—Partner's Share of Income, Credits, Deductions, etc.—
Trent Goodall

Schedule K-1 (Form 1065)—Partner's Share of Income, Credits, Deductions, etc.—
Shanna Goodall

Form 4797—Sales of Business Property

Form 4562—Depreciation and Amortization

Schedule B-1 (Form 1065)—Information on Partners Owning 50% or More of the Partnership

Schedule D (Form 1065)—Capital Gains and Losses

Supporting Details

Details for Schedule M-1, Line 4b

Information Supporting IRC Sec. 179 Expense (Form 1065, Schedules K and K-1, Line 9)

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2009, or tax year beginning _____, ending _____ ▶ See separate instructions.	OMB No. 1545-0099 <div style="font-size: 2em; font-weight: bold;">2009</div>
A Principal business activity Manufacturing B Principal product or service Umbrellas C Business code number 339900	<div style="display: flex;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin-right: 5px;">Use the IRS label. Otherwise, print or type.</div> <div> Name of partnership The Rainforest Umbrella Company Number, street, and room or suite no. If a P.O. box, see the instructions. 100 Wetland Way <div style="display: flex; justify-content: space-between;"> <div>City or town Seattle</div> <div>State WA</div> <div>ZIP code 98171</div> </div> </div> </div>	D Employer identification number 12-3456789 E Date business started 2/12/1997 F Total assets (see the instructions) \$ 606,059

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
 (6) ☐ Technical termination - also check (1) or (2)
H Check accounting method: (1) ☐ Cash (2) ☒ Accrual (3) ☐ Other (specify) _____
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year _____
J Check if Schedules C and M-3 are attached ☐

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a Gross receipts or sales	1a	884,202		
	b Less returns and allowances	1b		1c	884,202
	2 Cost of goods sold (Schedule A, line 8)			2	363,527
	3 Gross profit. Subtract line 2 from line 1c			3	520,675
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))			5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6	9,783
	7 Other income (loss) (attach statement)			7	
	8 Total income (loss). Combine lines 3 through 7			8	530,458
Deductions <small>(see the instructions for limitations)</small>	9 Salaries and wages (other than to partners) (less employment credits)			9	134,607
	10 Guaranteed payments to partners			10	39,520
	11 Repairs and maintenance			11	5,863
	12 Bad debts			12	
	13 Rent			13	62,803
	14 Taxes and licenses			14	18,265
	15 Interest			15	23,733
	16a Depreciation (if required, attach Form 4562)	16a	21,804		
	b Less depreciation reported on Schedule A and elsewhere on return	16b		16c	21,804
	17 Depletion (Do not deduct oil and gas depletion.)			17	
	18 Retirement plans, etc.			18	
	19 Employee benefit programs			19	
	20 Other deductions (attach statement)			20	65,418
	21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20			21	372,013
22 Ordinary business income (loss). Subtract line 21 from line 8			22	158,445	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager _____
 Date _____

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☒ No

Paid Preparer's Use Only Preparer's signature _____ Date _____ Firm's name (or yours if self-employed), address, and ZIP code _____ State _____	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN _____ EIN _____ Phone no. _____ ZIP code _____
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For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

(HTA)

Form **1065** (2009)

Form 1065 (2009) The Rainforest Umbrella Company

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Schedule A Cost of Goods Sold (see the instructions)

1	Inventory at beginning of year	1	60,999
2	Purchases less cost of items withdrawn for personal use	2	401,497
3	Cost of labor	3	
4	Additional section 263A costs (attach statement)	4	
5	Other costs (attach statement)	5	
6	Total. Add lines 1 through 5	6	462,496
7	Inventory at end of year	7	98,969
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2	8	363,527

9a Check all methods used for valuing closing inventory:

- (i) ☒ Cost as described in Regulations section 1.471-3
 (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
 (iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970). ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☒ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☒ No
 If "Yes," attach explanation.

Schedule B Other Information

- 1** What type of entity is filing this return? Check the applicable box:
- | | | | |
|---|--|------------|-----------|
| a <input checked="" type="checkbox"/> Domestic general partnership | b <input type="checkbox"/> Domestic limited partnership | Yes | No |
| c <input type="checkbox"/> Domestic limited liability company | d <input type="checkbox"/> Domestic limited liability partnership | | |
| e <input type="checkbox"/> Foreign partnership | f <input type="checkbox"/> Other ▶ | | |
- 2** At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person? ☐ Yes ☒ No
- 3** At the end of the tax year:
- a** Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership ☐ Yes ☒ No
- b** Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership ☒ Yes ☐ No
- 4** At the end of the tax year, did the partnership:
- a** Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below ☐ Yes ☒ No

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below ☐ Yes ☒ No

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

Form **1065** (2009)

Form 1065 (2009) The Rainforest Umbrella Company

12-3456789

Page **3**

	Yes	No
5 Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details.		X
6 Does the partnership satisfy all four of the following conditions? a The partnership's total receipts for the tax year were less than \$250,000. b The partnership's total assets at the end of the tax year were less than \$1 million. c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. d The partnership is not filing and is not required to file Schedule M-3. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.		X
7 Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		X
8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?		X
9 Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?		X
10 At any time during calendar year 2009, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. If "Yes," enter the name of the foreign country.		X
11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions.		X
12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.		X
b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions.		X
c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions.		X
13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than entities wholly-owned by the partnership throughout the tax year).		<input type="checkbox"/>
14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		X
15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions.		
16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership.		X
17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return.		0

Designation of Tax Matters Partner (see instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP	Shanna Goodall	Identifying number of TMP	123-45-6789
If the TMP is an entity, name of TMP representative		Phone number of TMP	
Address of designated TMP	66 Waterfall Lane Seattle	WA	98174

Form **1065** (2009)

Form 1065 (2009) The Rainforest Umbrella Company

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Schedule K Partners' Distributive Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	1	158,445
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss)	3a	
	b Expenses from other rental activities (attach statement)	3b	
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	0
	4 Guaranteed payments	4	39,520
	5 Interest income	5	1,581
	6 Dividends: a Ordinary dividends	6a	10,078
	b Qualified dividends	6b	10,078
	7 Royalties	7	
	8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	
9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	-4,595	
	b Collectibles (28%) gain (loss)	9b	
	c Unrecaptured section 1250 gain (attach statement)	9c	
10 Net section 1231 gain (loss) (attach Form 4797)	10	-2,996	
11 Other income (loss) (see instructions) Type ▶	11		
Deductions	12 Section 179 deduction (attach Form 4562)	12	80,028
	13a Contributions	13a	3,952
	b Investment interest expense	13b	12,657
	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)	
d Other deductions (see instructions) Type ▶	13d		
Self-Employment	14a Net earnings (loss) from self-employment	14a	188,182
	b Gross farming or fishing income	14b	
	c Gross nonfarm income	14c	520,676
Credits	15a Low-income housing credit (section 42(j)(5))	15a	
	b Low-income housing credit (other)	15b	
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468)	15c	
	d Other rental real estate credits (see instructions) Type ▶	15d	
	e Other rental credits (see instructions) Type ▶	15e	
	f Other credits (see instructions) Type ▶	15f	
Foreign Transactions	16a Name of country or U.S. possession ▶ United Kingdom		
	b Gross income from all sources	16b	5,928
	c Gross income sourced at partner level	16c	
	Foreign gross income sourced at partnership level		
	d Passive category ▶ e General category ▶ f Other ▶	16f	
	Deductions allocated and apportioned at partner level		
	g Interest expense ▶ h Other ▶	16h	
	Deductions allocated and apportioned at partnership level to foreign source income		
	i Passive category ▶ j General category ▶ k Other ▶	16k	
	l Total foreign taxes (check one): ▶ Paid <input checked="" type="checkbox"/> Accrued <input type="checkbox"/>	16l	593
m Reduction in taxes available for credit (attach statement)	16m		
n Other foreign tax information (attach statement)			
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment	17a	
	b Adjusted gain or loss	17b	
	c Depletion (other than oil and gas)	17c	
	d Oil, gas, and geothermal properties—gross income	17d	
	e Oil, gas, and geothermal properties—deductions	17e	
	f Other AMT items (attach statement)	17f	
Other Information	18a Tax-exempt interest income	18a	1,778
	b Other tax-exempt income	18b	
	c Nondeductible expenses	18c	2,470
	19a Distributions of cash and marketable securities	19a	86,449
	b Distributions of other property	19b	
	20a Investment income	20a	11,659
b Investment expenses	20b		
c Other items and amounts (attach statement)			

Form **1065** (2009)

Form 1065 (2009) The Rainforest Umbrella Company

12-3456789 Page 5

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l					1	104,803
2	Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a	General partners		104,803				
b	Limited partners						

Schedule L Balance Sheets per Books

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash		146,512		142,601
2a Trade notes and accounts receivable	21,341		30,759	
b Less allowance for bad debts		21,341		30,759
3 Inventories		60,999		98,969
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets (attach statement)				
7 Mortgage and real estate loans				
8 Other investments (attach statement)				
9a Buildings and other depreciable assets	266,760		267,748	
b Less accumulated depreciation	35,980	230,780	32,818	234,930
10a Depletable assets				
b Less accumulated depletion		0		0
11 Land (net of any amortization)		148,200		98,800
12a Intangible assets (amortizable only)				
b Less accumulated amortization		0		0
13 Other assets (attach statement)				
14 Total assets		607,832		606,059
Liabilities and Capital				
15 Accounts payable		42,370		28,778
16 Mortgages, notes, bonds payable in less than 1 year		187,720		162,266
17 Other current liabilities (attach statement)				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach statement)				
21 Partners' capital accounts		377,742		415,015
22 Total liabilities and capital		607,832		606,059

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. Schedule M-3 may be required instead of Schedule M-1 (see instructions).

1	Net income (loss) per books	123,722	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a	Tax-exempt interest \$	1,778
3	Guaranteed payments (other than health insurance)	39,520		Book Gain in Excess of	1,337
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$	83,999
b	Travel and entertainment \$				83,999
See Attached Statement	28,675	28,675	8	Add lines 6 and 7	87,114
5	Add lines 1 through 4	191,917	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	104,803

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	377,742	6	Distributions:	a Cash	86,449
2	Capital contributed:			b Property		
a	Cash		7	Other decreases (itemize):		
b	Property					
3	Net income (loss) per books	123,722	8	Add lines 6 and 7		86,449
4	Other increases (itemize):		9	Balance at end of year. Subtract line 8 from line 5		415,015
5	Add lines 1 through 4	501,464				

Form 1065 (2009)

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2009

For calendar year 2009, or tax
year beginning _____, 2009
ending _____, 20 _____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Part I Information About the Partnership									
A Partnership's employer identification number 12-3456789									
B Partnership's name, address, city, state, and ZIP code The Rainforest Umbrella Company 100 Wetland Way Seattle WA 98171									
C IRS Center where partnership filed return Ogden, UT 84201-0011									
D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)									
Part II Information About the Partner									
E Partner's identifying number 111-11-1111	Partner: 1								
F Partner's name, address, city, state, and ZIP code Trent Goodall 35 Cumulus Court Seattle, WA 98174									
G <input checked="" type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member H <input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner I What type of entity is this partner? <u>Active Individual</u> J Partner's share of profit, loss, and capital (see instructions):									
<table style="width:100%; border-collapse: collapse;"> <tr> <th align="left" style="width:50%;">Beginning</th> <th align="left" style="width:50%;">Ending</th> </tr> <tr> <td>Profit 70.000000%</td> <td>70.000000%</td> </tr> <tr> <td>Loss 70.000000%</td> <td>70.000000%</td> </tr> <tr> <td>Capital 70.000000%</td> <td>70.000000%</td> </tr> </table>		Beginning	Ending	Profit 70.000000%	70.000000%	Loss 70.000000%	70.000000%	Capital 70.000000%	70.000000%
Beginning	Ending								
Profit 70.000000%	70.000000%								
Loss 70.000000%	70.000000%								
Capital 70.000000%	70.000000%								
K Partner's share of liabilities at year end: Nonrecourse \$ _____ Qualified nonrecourse financing \$ <u>113,586</u> Recourse \$ <u>20,145</u>									
L Partner's capital account analysis: Beginning capital account \$ <u>264,420</u> Capital contributed during the year \$ _____ Current year increase (decrease) \$ <u>86,606</u> Withdrawals & distributions \$ <u>(60,515)</u> Ending capital account \$ <u>290,511</u> <input checked="" type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book <input type="checkbox"/> Other (explain) _____ M Did the partner contribute property with a built-in gain or loss? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes", attach statement (see instructions)									

651109
OMB No. 1545-0099

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	15	Credits
	110,911		
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	United Kingdom
4	Guaranteed payments	B	4,150
5	Interest income		
	1,107	L	415
6a	Ordinary dividends		
	7,055		
6b	Qualified dividends		
	7,055		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
	-3,216		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
	-2,097		
11	Other income (loss)	A	1,245
		C	1,729
12	Section 179 deduction	A	60,515
	56,020		
13	Other deductions		
A	2,766	20	Other information
H	8,860	A	8,161
14	Self-employment earnings (loss)		
A	104,063		
C	364,473		
*See attached statement for additional information.			
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-size: small; margin-right: 10px;">For IRS Use Only</div> </div>			

For Paperwork Reduction Act Notice, see Instructions for Form 1065.
(HTA)

Schedule K-1 (Form 1065) 2009

Trent Goodall

111-11-1111

K-1 Statement (Sch K-1, Form 1065)

Line 13 - Deductions

A	Code A - Cash contributions (50%)	A	<u>2,766</u>
H	Code H - Investment interest expense	H	<u>8,860</u>

Line 14 - Self-Employment

A	Code A - Net earnings (loss) from self-employment	A	<u>104,063</u>
C	Code C - Gross non-farm income	C	<u>364,473</u>

Line 16 - Foreign Transactions

A	Code A - Name of country or U.S. possession	A	<u>United Kingdom</u>
B	Code B - Gross income from all sources	B	<u>4,150</u>
L	Code L - Total foreign taxes paid		
	English Taxes Withheld		<u>415</u>
	Total Code L - Total foreign taxes paid	L	<u>415</u>

Line 18 - Tax-exempt income and nondeductible expenses

A	Code A - Tax-exempt interest income	A	<u>1,245</u>
C	Code C - Nondeductible expenses	C	<u>1,729</u>

Line 19 - Distributions

A	Code A - Cash and marketable securities	A	<u>60,515</u>
---	---	---	---------------

Line 20 - Other Information

A	Code A - Investment income	A	<u>8,161</u>
Y	Code Y - Other information		
			<u>0</u>

**Schedule K-1
(Form 1065)**Department of the Treasury
Internal Revenue Service**2009**For calendar year 2009, or tax
year beginning _____, 2009
ending _____, 20 _____**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Part I Information About the Partnership**A** Partnership's employer identification number

12-3456789

B Partnership's name, address, city, state, and ZIP code

The Rainforest Umbrella Company

100 Wetland Way

Seattle

WA 98171

C IRS Center where partnership filed return

Ogden, UT 84201-0011

D ☐ Check if this is a publicly traded partnership (PTP)**Part II Information About the Partner****E** Partner's identifying number

Partner: 2

123-45-6789

F Partner's name, address, city, state, and ZIP code

Shanna Goodall

66 Waterfall Lane

Seattle, WA 98174

G ☒ General partner or LLC member-manager ☐ Limited partner or other LLC member**H** ☒ Domestic partner ☐ Foreign partner**I** What type of entity is this partner? Active Individual**J** Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	30.000000%	30.000000%
Loss	30.000000%	30.000000%
Capital	30.000000%	30.000000%

K Partner's share of liabilities at year end:

Nonrecourse	\$	
Qualified nonrecourse financing	\$	48,680
Recourse	\$	8,633

L Partner's capital account analysis:

Beginning capital account	\$	113,322
Capital contributed during the year	\$	
Current year increase (decrease)	\$	37,116
Withdrawals & distributions	\$	(25,934)
Ending capital account	\$	124,504

☒ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)**M** Did the partner contribute property with a built-in gain or loss?☐ Yes ☒ No

If "Yes", attach statement (see instructions)

☐ Final K-1☐ Amended K-1651109
OMB No. 1545-0099**Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	15	Credits
	47,534		
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
		A	United Kingdom
4	Guaranteed payments	B	
	39,520		1,778
5	Interest income	L	
	474		178
6a	Ordinary dividends		
	3,023		
6b	Qualified dividends		
	3,023		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
	-1,379		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
	-899		
11	Other income (loss)	A	533
		C	741
12	Section 179 deduction	A	25,934
	24,008		
13	Other deductions	20	Other information
A	1,186		
H	3,797	A	3,498
14	Self-employment earnings (loss)		
A	84,119		
C	156,203		

*See attached statement for additional information.

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(HTA)

Schedule K-1 (Form 1065) 2009

Shanna Goodall

123-45-6789

K-1 Statement (Sch K-1, Form 1065)

Line 13 - Deductions

A Code A - Cash contributions (50%) A 1,186
H Code H - Investment interest expense H 3,797

Line 14 - Self-Employment

A Code A - Net earnings (loss) from self-employment A 84,119
C Code C - Gross non-farm income C 156,203

Line 16 - Foreign Transactions

A Code A - Name of country or U.S. possession A United Kingdom
B Code B - Gross income from all sources B 1,778
L Code L - Total foreign taxes paid
English Taxes Withheld 178
Total Code L - Total foreign taxes paid L 178

Line 18 - Tax-exempt income and nondeductible expenses

A Code A - Tax-exempt interest income A 533
C Code C - Nondeductible expenses C 741

Line 19 - Distributions

A Code A - Cash and marketable securities A 25,934

Line 20 - Other Information

A Code A - Investment income A 3,498
Y Code Y - Other information
. 0

Form	4797	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) ▶ Attach to your tax return. ▶ See separate instructions.	OMB No. 1545-0184 2009 Attachment Sequence No. 27
Department of the Treasury Internal Revenue Service (99)			
Name(s) shown on return		Identifying number	
The Rainforest Umbrella Company		12-3456789	
1 Enter the gross proceeds from sales or exchanges reported to you for 2009 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)		1	
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)			
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
			(d) Gross sales price
			(e) Depreciation allowed or allowable since acquisition
			(f) Cost or other basis, plus improvements and expense of sale
			(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	Disallowed Loss - Land (Sec. 2		0
	Land	10/1/2004	3/12/2009
		39,520	0
	Machinery	6/1/2005	4/20/2009
		4,940	21,704
			29,640
			-2,996
3	Gain, if any, from Form 4684, line 43		
4	Section 1231 gain from installment sales from Form 6252, line 26 or 37		
5	Section 1231 gain or (loss) from like-kind exchanges from Form 8824		
6	Gain, if any, from line 32, from other than casualty or theft		
7	Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:		
	Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.		
	Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.		
8	Nonrecaptured net section 1231 losses from prior years (see instructions)		
9	Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)		
			0
Part II Ordinary Gains and Losses (see instructions)			
10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):			
	Building	10/1/2004	3/12/2009
		26,688	3,356
			29,640
			404
			0
			0
11	Loss, if any, from line 7		
12	Gain, if any, from line 7 or amount from line 8, if applicable		
13	Gain, if any, from line 31		
14	Net gain or (loss) from Form 4684, lines 35 and 42a		
15	Ordinary gain from installment sales from Form 6252, line 25 or 36		
16	Ordinary gain or (loss) from like-kind exchanges from Form 8824		
17	Combine lines 10 through 16		
	For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
	a If the loss on line 11 includes a loss from Form 4684, line 39, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions		
	b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14		
			0

For Paperwork Reduction Act Notice, see separate instructions. Form **4797** (2009)

Form 4797 (2009)

The Rainforest Umbrella Company 12-3456789

Page 2

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
(see instructions)

19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
	A Machinery	3/1/2007	4/20/2009
	B		
	C		
	D		

These columns relate to the properties on lines 19A through 19D.		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1 before completing.)	19,748			
21	Cost or other basis plus expense of sale	19,760			
22	Depreciation (or depletion) allowed or allowable	9,391			
23	Adjusted basis. Subtract line 22 from line 21	10,369	0	0	0
24	Total gain. Subtract line 23 from line 20	9,379	0	0	0
25	If section 1245 property:				
	a Depreciation allowed or allowable from line 22	9,391			
	b Enter the smaller of line 24 or 25a	9,379	0	0	0
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.				
	a Additional depreciation after 1975 (see instructions)				
	b Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions)				
	c Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e	0	0	0	0
	d Additional depreciation after 1969 and before 1976				
	e Enter the smaller of line 26c or 26d	0	0	0	0
	f Section 291 amount (corporations only)				
	g Add lines 26b, 26e, and 26f	0	0	0	0
27	If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).				
	a Soil, water, and land clearing expenses				
	b Line 27a multiplied by applicable percentage (see instructions)	0	0	0	0
	c Enter the smaller of line 24 or 27b	0	0	0	0
28	If section 1254 property:				
	a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)				
	b Enter the smaller of line 24 or 28a	0	0	0	0
29	If section 1255 property:				
	a Applicable percentage of payments excluded from income under section 126 (see instructions)				
	b Enter the smaller of line 24 or 29a (see instructions)	0	0	0	0

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30	Total gains for all properties. Add property columns A through D, line 24	9,379
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	9,379
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 37. Enter the portion from other than casualty or theft on Form 4797, line 6	0

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
(see instructions)

	(a) Section 179	(b) Section 280F(b)(2)
33	Section 179 expense deduction or depreciation allowable in prior years	
34	Recomputed depreciation (see instructions)	
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	0

Form 4797 (2009)

Form 4562 Department of the Treasury Internal Revenue Service (99)	Depreciation and Amortization (Including Information on Listed Property) ▶ See separate instructions. ▶ Attach to your tax return.	OMB No. 1545-0172 2009 Attachment Sequence No. 67						
Name(s) shown on return The Rainforest Umbrella Company		Business or activity to which this form relates 1065 - Manufacturing						
		Identifying number 12-3456789						
Part I Election To Expense Certain Property Under Section 179 <i>Note: If you have any listed property, complete Part V before you complete Part I.</i>								
1 Maximum amount. See the instructions for a higher limit for certain businesses		1 250,000						
2 Total cost of section 179 property placed in service (see instructions).		2 80,028						
3 Threshold cost of section 179 property before reduction in limitation (see instructions).		3 800,000						
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-		4 0						
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions		5 250,000						
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;">(a) Description of property</th> <th style="width: 20%;">(b) Cost (business use only)</th> <th style="width: 30%;">(c) Elected cost</th> </tr> <tr> <td>Machinery</td> <td style="text-align: right;">80,028</td> <td style="text-align: right;">80,028</td> </tr> </table>		(a) Description of property	(b) Cost (business use only)	(c) Elected cost	Machinery	80,028	80,028	
(a) Description of property	(b) Cost (business use only)	(c) Elected cost						
Machinery	80,028	80,028						
7 Listed property. Enter the amount from line 29		7						
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7		8 80,028						
9 Tentative deduction. Enter the smaller of line 5 or line 8		9 80,028						
10 Carryover of disallowed deduction from line 13 of your 2008 Form 4562.		10						
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)		11 197,965						
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11		12 80,028						
13 Carryover of disallowed deduction to 2010. Add lines 9 and 10, less line 12		13 0						
<i>Note: Do not use Part II or Part III below for listed property. Instead, use Part V.</i>								
Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)								
14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)		14						
15 Property subject to section 168(f)(1) election		15						
16 Other depreciation (including ACRS)		16						
Part III MACRS Depreciation (Do not include listed property.) (See instructions.)								
Section A								
17 MACRS deductions for assets placed in service in tax years beginning before 2009		17 21,804						
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		<input type="checkbox"/>						
Section B - Assets Placed in Service During 2009 Tax Year Using the General Depreciation System								
(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction		
19 a 3-year property								
b 5-year property								
c 7-year property								
d 10-year property								
e 15-year property								
f 20-year property								
g 25-year property			25 yrs.		S/L			
h Residential rental property			27.5 yrs.	MM	S/L			
i Nonresidential real property			27.5 yrs.	MM	S/L			
			39 yrs.	MM	S/L			
Section C - Assets Placed in Service During 2009 Tax Year Using the Alternative Depreciation System								
20 a Class life					S/L			
b 12-year			12 yrs.		S/L			
c 40-year			40 yrs.	MM	S/L			
Part IV Summary (See instructions.)								
21 Listed property. Enter amount from line 28		21						
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions		22	21,804					
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs		23						

For Paperwork Reduction Act Notice, see separate instructions.

Form 4562 (2009)

(HTA)

**SCHEDULE B-1
(Form 1065)**(December 2009)
Department of the Treasury
Internal Revenue Service**Information on Partners Owning 50% or
More of the Partnership**

▶ Attach to Form 1065. See instructions on back.

OMB No. 1545-0099

Name of partnership

The Rainforest Umbrella Company

Employer identification number (EIN)

12-3456789

Part I **Entities Owning 50% or More of the Partnership** (Form 1065, Schedule B, Question 3a)

Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

Part II **Individuals or Estates Owning 50% or More of the Partnership** (Form 1065, Schedule B, Question 3b)

Complete columns (i) through (iv) below for any individual or estate that owns, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Maximum Percentage Owned in Profit, Loss, or Capital
Trent Goodall	111-11-1111	United States	70.000%

For Paperwork Reduction Act Notice, see the Instructions for Form 1065.

Schedule B-1 (Form 1065) (12-2009)

(HTA)

**SCHEDULE D
(Form 1065)**

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ **Attach to Form 1065.** ▶ **See separate instructions.**
▶ **Use Schedule D-1 to list additional transactions for lines 1 and 7.**

OMB No. 1545-0099

2009

Name of partnership

Employer identification number

The Rainforest Umbrella Company

12-3456789

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter short-term capital gain or (loss), if any, from Schedule D-1, line 2					2
3 Short-term capital gain from installment sales from Form 6252, line 26 or 37					3
4 Short-term capital gain (loss) from like-kind exchanges from Form 8824					4
5 Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships, estates, and trusts					5
6 Net short-term capital gain or (loss). Combine lines 1 through 5 in column (f). Enter here and on Form 1065, Schedule K, line 8 or 11					6 0

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
7 30 Shrs. Basswood, Inc.	9/11/2004	3/23/2009	444	1,976	-1,532
Wash sale					1,532
90 Shrs. Basswood, Inc.	9/11/2004	3/23/2009	1,333	5,928	-4,595
8 Enter long-term gain or (loss), if any, from Schedule D-1, line 8					8
9 Long-term capital gain from installment sales from Form 6252, line 26 or 37					9
10 Long-term capital gain (loss) from like-kind exchanges from Form 8824					10
11 Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships, estates, and trusts					11
12 Capital gain distributions					12
13 Net long-term capital gain or (loss). Combine lines 7 through 12 in column (f). Enter here and on Form 1065, Schedule K, line 9a or 11					13 -4,595

For Paperwork Reduction Act Notice, see the Instructions for Form 1065.
(HTA)

Schedule D (Form 1065) 2009

68 ♦ SOLUTION TO PARTNERSHIP PRACTICE SET

The Rainforest Umbrella Company

12-3456789

Line 20 (1065) - Other Deductions

1 Advertising	1	41,733
2 Shipping	2	23,685
3 Total other deductions	3	65,418

Line 4, Sch M-1 (1065) - Expenses on Books Not on Sch K, lines 1 through 13d and 16l

1 Interest Paid To Carry Tax-exempt Investments	1	2,470
2 Deferred Loss on Wash Sale	2	1,532
3 Loss on Sale of Land to Related Party	3	9,880
4 Excess of Accumulated Depr for Tax (\$21,704) over Book (\$11,856)	4	9,848
5 Excess of Accumulated Depr for Tax (\$9,391) over Book (\$4,446)	5	4,945
6 Total expenses on books not on Sch K, lines 1 through 13d and 16l	6	28,675

Line 6, Sch M-1 (1065) - Income on Books Not on Sch K, lines 1 through 11

1 Tax-exempt interest income	1	1,778
2 Book Gain in Excess of Tax Gain on sale of Buildings	2	1,337
3 Total income on books not on Sch K, lines 1 through 11	3	3,115

The Rainforest Umbrella Company

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1065—U.S. Partnership Return of Income

Details for Schedule M-1, Line 4b

Form 1120S, Page 4, Schedule M-1, Line 4b

Expenses recorded on books this year not included
on Schedule K, Lines 1 through 11, 14a, 17e, and 18b

1. Deferral of loss on sale of Basswood, Inc. stock due to wash sale rule	\$ 1,532
2. Loss on sale of land to related party (IRC Sec. 267)	9,880
3. Excess of accumulated depreciation for tax (\$21,704) over book (\$11,856) on 2005 machinery and equipment sold	9,848
4. Excess of accumulated depreciation for tax (\$9,391) over book (\$4,446) on 2007 machinery and equipment sold	4,945
5. Interest on loan to buy tax-exempt (City of Seattle, Washington) bonds	<u>2,470</u>
Total to Schedule M-1, Line 4b	<u>\$28,675</u>

The Rainforest Umbrella Company

E. I. No. 12-3456789

A Schedule Attached to and Made Part of
2009 Form 1065—U.S. Partnership Return of IncomeInformation Supporting IRC Sec. 179 Expense
(Form 1065, Schedules K and K-1, Line 9)

Property on which IRC Sec. 179 election to expense applies:

Machinery and Equipment

Date property acquired: 04/01/09

	<u>Total</u>	<u>Trent Goodall</u>	<u>Shanna Goodall</u>
Total cost of Sec. 179 property placed in service during the year	<u>\$ 80,028</u>	<u>\$56,020</u>	<u>\$24,008</u>
Taxable income limitation for purpose of Sec. 179 deduction	<u>\$197,965</u>	<u>\$138,576</u>	<u>\$59,389</u>
Portion of cost to be expensed	<u>\$ 80,028</u>	<u>\$56,020</u>	<u>\$24,008</u>
Portion of cost treated as a carryover amount	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

INFORMATION FOR INSTRUCTORS

PARTNERSHIP PRACTICE SET (2010-2011 EDITION)

The Rainforest Umbrella Company

Following are details on some of the calculations in the solution. Observations are made on areas which the students may find more difficult. You can reduce the difficulty of the practice set if you so choose by providing your students “clues” (or even the solutions) in some or all of these areas. Paragraph references are to the facts for the practice set.

1. Computation of Cost of Goods Sold (Form 1065, p. 2, Sch. A). Amounts for beginning and ending inventories and for cost of goods sold are provided. Students must “back into” the cost of purchases; e.g.,

Cost of Goods Sold		\$363,527
Inventory Adjustment		
Beginning Inventory	\$60,999	
Ending Inventory	<u>98,969</u>	<u>37,970</u>
Cost of Purchases		<u>401,497</u>
		<i>Easy</i>

2. Para. 1. Foreign Tax Credit. The dividend from Nylon Corporation should be “grossed up” for the 10% English income tax withheld:

$$\frac{\$5,335}{(100\% - 10\%)} = \underline{\$5,928} \text{ gross dividend}$$

Dividend income of \$5,928 is included in Schs. K and K-1, ln. 6b. The \$593 English income tax is reported in the “Foreign Taxes” section of Schs. K and K-1, ln. 16l. *Hard*

3. Para. 2. Tax-exempt interest income. Interest of \$1,778 on City of Seattle, Washington General Obligation bond is excludible. The amount is included on Form 1065, p. 5, Sch. M-1, ln. 6a and on Form 1065, p. 4, Schs. K and K-1, ln. 18a. (The number on this line of the Sch. K-1 is used by the partner to adjust tax basis in his/her partnership interest and in determining the amount of social security benefits, if any, that may be taxable.) *Easy*
4. Para. 4. Sale of Basswood, Inc. stock and wash sale. Sales price is calculated to be \$1,777 [\$(6,127) realized loss + \$7,904 basis = \$1,777 sales price]. The realized loss is reported as a long-term capital loss on Form 1065, Sch. D, pt. II, ln. 7.

However, to the extent the shares sold were replaced with substantially identical stock purchased within the period beginning 30 days prior to the sale and ending 30 days after the sale, the wash sale rule disallows current deduction of the realized loss. Since the

partnership repurchased 30 shares of the same stock within the 61-day window, 30/120th (or 25%) of the realized loss is deferred [$25\% \times \$ (6,127) = \$1,532$ deferral]. The wash sale is disclosed on Sch. D, pt. II, ln. 7 with a positive adjustment for the \$1,532 to offset the portion of the realized loss that is deferred. Purchase of the Metalworks, Inc. stock does not trigger a wash sale because a different company is involved (not substantially identical to stock sold) and the purchase was more than 30 days after the sale. The \$1,532 deferred loss is reported on Form 1065, p. 5, Sch. M-1, ln. 4b. *Hard*

5. Tax depreciation is computed as follows:

Depreciation/Cost Recovery Information

/-----Asset Cost-----/ /-----Accumulated Depreciation-----/

Tax Depreciation Information	<u>Balance</u> <u>12/31/08</u>	<u>2009</u> <u>Additions</u>	<u>2009</u> <u>Retirements</u>	<u>Balance</u> <u>12/31/09</u>	<u>Balance</u> <u>12/31/08</u>	<u>2009</u> <u>Provision</u>	<u>2009</u> <u>Retirements</u>	<u>Balance</u> <u>12/31/09</u>
Buildings Acquired on:								
10/01/04	\$ 29,640		(\$29,640)	\$ 0	\$ 3,198	\$ 158	(\$ 3,356)	\$ 0
10/01/05	<u>118,560</u>	<u> </u>	<u> </u>	<u>118,560</u>	<u>9,753</u>	<u>3,040</u>	<u> </u>	<u>12,793</u>
	<u>\$148,200</u>	<u>\$ 0</u>	<u>(\$29,640)</u>	<u>\$118,560</u>	<u>\$12,951</u>	<u>\$ 3,198</u>	<u>(\$ 3,356)</u>	<u>\$12,793</u>
Machinery Acquired on:								
06/01/05	\$ 29,640		(\$29,640)	\$ 0	\$20,380	\$ 1,324	(\$21,704)	\$ 0
03/01/07	39,520		(19,760)	19,760	15,326	5,184	(9,391)	11,119
08/01/08	49,400			49,400	7,059	12,098		19,157
04/01/09	Sec 179 Expense	\$80,028	<u> </u>	<u>80,028</u>	<u> </u>	<u>80,028</u>	<u> </u>	<u>80,028</u>
	<u>\$118,560</u>	<u>\$80,028</u>	<u>(\$49,400)</u>	<u>\$149,188</u>	<u>\$42,765</u>	<u>\$98,634</u>	<u>(\$31,095)</u>	<u>\$110,304</u>
	<u>\$266,760</u>	<u>\$80,028</u>	<u>(\$79,040)</u>	<u>\$267,748</u>	<u>\$55,716</u>	<u>\$101,832</u>	<u>(\$34,451)</u>	<u>\$123,097</u>

6. Para. 5. Sale of Land. Loss on sale of the land is not deductible due to IRC Sec. 267 (loss on sale to a related party). For disclosure, the loss and disallowance of deduction is reported on Form 4797, p. 1, pt. I, ln. 2. The nondeductible loss is also included on Form 1065, p. 4, Sch. M-1, ln. 4b. *Hard*

7. Para. 5. Sale of Buildings. The gain on sale of the buildings to Trent Goodall is all ordinary income under IRC Sec. 1239 (sale of depreciable property to a related party). Accordingly, it is reported on Form 4797, p. 1, pt. II, ln. 10.

Amount of the gain must be refigured to adjust the financial-based information (provided) to tax basis. The accumulated depreciation is shown on the tax depreciation schedule above.

The \$1,337 excess of book (\$1,741) over tax (\$404) gain is included on Form 1065, p. 5, Sch. M-1, ln. 6a.

8. Para. 5. Sale of 2005 M&E. Amount of the loss must be refigured to adjust the financial basis to tax basis. The accumulated depreciation for tax purposes is shown on the tax depreciation schedule above. The resulting \$2,996 tax loss is deducted as a Sec. 1231 loss on Form 4797, p. 1, pt. I, ln. 2.

The \$9,848 excess of tax (\$21,704) over book (\$11,856) depreciation is included on Form 1065, p. 4, Sch. M-1, ln. 4b. *Hard*

9. Para. 5. Sale of 2007 M&E. The machine was sold at a gain that is subject to Sec. 1245 recapture of depreciation and, thus, is reported on Form 4797, p. 2, pt. III, ln. 19, prop. A.

Amount of the gain must be refigured to adjust the financial basis to tax basis. The accumulated depreciation for tax purposes is shown on the tax depreciation schedule above. The result was a \$9,379 taxable gain.

The \$4,945 excess of tax (\$9,391) over book (\$4,446) depreciation is included on Form 1065, p. 4, Sch. M-1, ln. 4b. *Medium*

10. Para. 7. Interest expense related to City of Seattle, Washington bonds. The interest income from the bonds is excludible as interest on local obligations. Accordingly, related interest expense is not deductible. The \$2,470 is included on Form 1065, p. 5, Sch. M-1, ln. 4b and is reported on Schs. K and K-1, ln. 18c for shareholders to use in adjusting bases of their partnership interests. *Easy*

11. Para. 7. Other investment interest expense. The \$12,657 interest expense related to purchasing Intel Corp. stock (\$4,841) and Gateway Corp. stock (\$7,816) is a separately stated item reported on Schs. K and K-1, ln. 13b. *Easy*

12. Form 4562, Depreciation and Amortization, p. 1, pt. 1, ln. 11. Taxable income limitation for Sec. 179 expensing election is computed as follows:

Ordinary taxable income, Form 1065, p. 1, ln. 22	\$158,445
Compensation of partner deducted in calculating ordinary income from trade or business activities	<u>39,520</u>
Taxable income from trade or business before Sec. 179 expensing	<u>\$197,965</u>

Hard

13. Schedule attached to Schedules K and K-1 for Sec. 179 Expense. The purpose of this schedule is to break out the portion of the data for calculation of the amount to be expensed by each partner. While this schedule is not technically required (therefore, likely it should not be graded), the partners need this information to calculate limits on Sec. 179 expense on their individual returns.
14. Other items of income and deduction reported to partners on Form 1065, Schs. K and K-1, lns. 18, 19, and 20. These amounts are for partners' adjustments to bases in their partnership interests under IRC Secs. 705(a)(1)(B) and 705(a)(2)(B). [See Instructions for Form 1065, p. 37, under the referenced line numbers.]

The only item of tax-exempt income reported on Schs. K and K-1, lns. 18a and 18b is the \$1,778 of tax-exempt interest income. Looking at the Sch. M-1 reconciling items (Form 1065, p. 5, Sch. M-1, ln. 6), the \$1,337 reduction in book gain on the sale of the buildings was also considered for inclusion on Schs. K and K-1, ln. 20. However, this item merely represents an adjustment to book gain to get to the proper amount of taxable gain. Since the partners' bases have been adjusted by tax (not book) depreciation, and since the proper amount of taxable gain (\$404) is reflected on Form 4797 (and in taxable income on Form 1065, p. 1), which partners use for basis adjustment, no further adjustment (i.e., for the \$1,337) is needed.

15. Worksheet for Figuring Net Earnings (Loss) From Self-Employment
(Form 1065, Schedules K and K-1, Line 14a)

				Total (Sch. K)	Trent Goodall (Sch. K-1)	Shanna Goodall (Sch. K-1)
1	a	Ordinary income (loss)(Form 1065, p. 1, ln. 22)	1a	\$158,445	\$110,911	\$47,534
	b	Net income (loss) from certain rental real estate activities (see instructions)	1b			
	c	Net income (loss) from other rental activities (Sch. K, ln. 3c)	1c			
	d	Net loss from Form 4797, pt. II, ln. 17, included on ln. 1a above. Enter as a positive amount	1d			
	e	Combine lns. 1a through 1d	1e	\$158,445	\$110,911	\$47,534
2		Net gain from Form 4797, pt. II, ln. 17, included on ln. 1a above	2	9,783	6,848	2,935
3	a	Subtract ln. 2 from ln. 1e. If ln. 1e is a loss, increase the loss on ln. 1e by the amount on ln. 2	3a	\$148,662	\$104,063	\$44,599
	b	Part of ln. 3a allocated to limited partners, estates, trusts, corporations, exempt organizations, and IRAs	3b			
	c	Subtract ln. 3b from ln. 3a. If ln. 3a is a loss, reduce the loss on ln. 3a by the amount on ln. 3b. Include each individual general partner's share on ln. 15a of Sch. K-1	3c	\$148,662	\$104,063	\$44,599
4	a	Guaranteed payments to partners (Sch. K, ln. 5) derived from a trade or business as defined in section 1402(c)(see instructions)	4a	39,520		39,520
	b	Part of ln. 4a allocated to individual limited partners for other than services and to estates, trusts, corporations, exempt organizations, and IRAs	4b			
	c	Subtract ln. 4b from ln. 4a. Include each individual general partner's share and each individual limited partner's share on ln. 15a of Sch. K-1	4c	\$ 39,520		\$39,520
5		Net earnings (loss) from self-employment. Combine lns. 3c & 4c. Enter here and on Sch. K, ln. 15a	5	<u>\$188,182</u>	<u>\$104,063</u>	<u>\$84,119</u>

Medium

