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1120 CASE STUDY FACTS

FOR TAX YEAR 2024

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1120 BEDFORD, INC. CASE STUDY FACTS (CASBEM)

Bedford, Inc. is a small C corporation. Bedford, Inc. is not part of a consolidated group, nor is it a personal holding company or a personal service corporation. Bedford, Inc. uses the cost method for inventory valuation. The company purchased two assets this year and sold one asset. Book depreciation is the same as the tax amount.

TARGETED AREAS

- Practice for new users
- Entering basic 1120 data
- Transmittal letter and filing instructions

RETURN INFORMATION

- General Information (page 2)
- Income (page 3)
- Deductions (page 3)
- Depreciation (page 4)
- Schedule E (page 5)
- Schedule L (page 5)
- Schedule M-1 (page 6)
- Gains and Losses (page 6)
- Form 4797 (page 7)
- Schedule D (page 7)
- Transmittal Letter and Filing Instructions (page 7)

DATA ENTRY

- Print and Default Options (page 8)
- General Information (page 8)
- Income and Deductions (page 8)
- Officers' Compensation (page 10)
- Balance Sheet (page 10)
- Schedule M-1 (page 11)
- Schedule D (page 11)
- Transmittal Letters and Filing Instructions (page 12)
- Reviewing the Return (page 71)

RETURN INFORMATION

Some data is already entered for you. Use the Data Entry (page 8) section for instructions and hints on entering any data you are unsure how to enter. You should verify all the information when it has changed or is missing based on the information in these facts.

General Information

NAME	***Bedford, Inc.***
ADDRESS	***120 Maple Street*** ***Bayside Hills, NY 11364***
EIN	***98-8888888***
METHOD OF ACCOUNTING	***Accrual***
BUSINESS ACTIVITY CODE	***421700***
BUSINESS ACTIVITY	***Wholesale***
PRODUCT	***Hardware***

Income

Interest Income

FIRST NATIONAL BANK	*$ 1,850*

Cost of Goods Sold

BEGINNING INVENTORY	*$ 25,000*
PURCHASES	*$150,000*
ENDING INVENTORY	*$ 50,000*

Deductions

Taxes

REAL ESTATE TAXES	*$ 7,200*
PAYROLL TAX	*$ 70,000*
NEW YORK STATE TAXES	*$ 15,800*

Current Year Contributions

UNITED WAY	*$ 16,380*

Depreciation

Form 4562 Information

Summary depreciation information for assets acquired before 2024

MACRS DEDUCTION FOR ASSETS PLACED IN SERVICE DURING PRIOR TAX YEARS	*$ 9,250*
OTHER DEPRECIATION	*$ 60,831*

Asset #1 Detail

DESCRIPTION	*Office Furniture*
DATE PLACED IN SERVICE	*01/01/2024*
COST	*$ 50,000*
METHOD	*7-year MACRS*

Asset #2 Detail

DESCRIPTION	*PC Equipment*
DATE PLACED IN SERVICE	*09/01/2024*
COST	*$ 25,000*
METHOD	*5-year MACRS*

1. Scroll down to **Property Type**.
2. Click **Listed property/vehicle over 6,000 lbs**.

Schedule E

OFFICER	1	2
NAME	John Sample	Jane Sample
SSN	111-22-3333	444-55-6666
TITLE	President/CEO	Vice President
PERCENTAGE OF TIME DEVOTED TO BUSINESS	100%	100%
COMMON STOCK OWNED	50%	50%
COMPENSATION	$150,000	$100,000

Schedule L

OTHER CURRENT ASSETS	BEGINNING	ENDING
Prepaid Insurance	8,000	10,000
Prepaid Interest	2,000	1,000
Capital Stock-Common	500,000	500,000

Verify under the **Accrual Options** tab that the depreciation options to calculate the ending balance sheet amount and carry the book-tax difference to Schedules M-1/M-3 are checked.

Schedule M-1

EXPENSES RECORDED ON BOOKS THIS YEAR NOT DEDUCTED		
Officers' Life Insurance Premium	***Line 5c, Other***	***$ 9,000***
DEDUCTIONS IN RETURN NOT CHARGED AGAINST BOOK INCOME		
	Line 8b, Other	***$ 7,726***

Gains and Losses

1. Select **Quick Track > Sales of Business Prop**.

   OR

   Select **Gains and Losses > Disposition of Property > Disposition Detail > Create Dispositions of Property**.

2. Enter ***Equipment Sales*** in the **Description of Property** entry box.
3. Go to **Disposition Type**.
4. Click the drop-down arrow and click ***Form 4797***.
5. Go to **Type of Property**.
6. Click the drop-down arrow, and click ***Section 1245***.
7. Do a full recompute after **Type of Property** is entered.
8. Select **Sales of Business Property > Equipment Sales**.
9. Verify the **Description of Property** as ***Equipment Sales*** and **Type of Property** as ***Section 1245***.

Form 4797

DESCRIPTION	*Equipment Sales*
TYPE OF SALE	*Sec. 1245*
DATE ACQUIRED	*01/01/2006*
DATE DISPOSED	*12/31/2024*
COST OR OTHER BASIS	*$ 20,000*
GROSS SALES PRICE	*$ 14,000*
ACCUMULATED DEPRECIATION (OR DEPLETION)	*$ 8,000*

Schedule D

DESCRIPTION	*100 Shares - ABC Corp.*
DATE ACQUIRED	*07/01/2009*
DATE DISPOSED	*09/01/2024*
COST OR OTHER BASIS	*$ 10,000*
GROSS SALES PRICE	*$ 13,000*

Transmittal Letter and Filing Instructions

Bedford, Inc. requires both transmittal letter and filing instructions. The return will be filed at the ***Cincinnati, OH*** IRS Center (automatic generation).

The transmittal letter requires an optional paragraph that states that ***We sincerely appreciate this opportunity to serve you. Please contact us if you have any questions...***

Perform a full recompute of the return.

DATA ENTRY

Print and Default Options

Most options can be set for all 1120 returns in your account by your Administrator. You can review and/or change these options on a return-by-return basis.

1. Select **General Information > Return and Print Options** or **Tax Defaults**.
2. Click each tab or select the appropriate folder to view the various processing options.

General Information

1. Select **Quick Track > Entity Information**.

   OR

   Select **General Information > Basic Return Information**.
2. Verify the name and address information.
3. Verify Bedford's EIN in the **EIN** field.
4. Enter the date of incorporation: ***06/30/1995***.

When entering employer identification number and Social Security numbers, be sure to include the dashes.

Income and Deductions

Several income and deduction items have been entered for you.

1. Select **Quick Track > Income**.

   OR

   Select **Income and Deductions > Income**.
2. Enter the interest income from First National Bank.

3. To enter the COGS, select **Quick Track > Cost of Goods Sold**.

   OR

   Select **Income and Deductions > COGS/COOPS**.

4. Enter the applicable data.

5. To enter the deduction items, select **Quick Track > Deductions**.

   OR

   Select **Income and Deductions > Deductions > Detail**.

6. Scroll down to the **Taxes Excluding Income** group.

7. Enter the amounts for **real estate tax** and **payroll tax**.

8. Enter the New York state taxes under **State and Local Taxes**.

9. To enter the Contributions, select **Income and Deductions > Deductions > Contributions > Current Year Contributions** tab.

10. Verify the description and amount for the current year contributions.

11. To enter the two assets purchased during 2024, select **Quick Track > Depreciation Detail**. This takes you to the **Add new Asset** box.

12. Enter the first description. Repeat this step for the second asset.

    OR

    Select **Deductions > Depreciation and Amortization > General Depreciation and Amortization > Asset Detail**.

13. Click **Add new Asset** and enter the first description.

14. Repeat this step for the second asset.

15. Enter the information in the appropriate fields for the two assets.

To enter summary depreciation information for assets acquired before 2007:

1. Select **General Depreciation and Amortization > Form 4562 Information > 4562 Overrides**.
2. Scroll down to locate the section titled **Overrides for Other Depreciation, Listed Property, and Section 263A Costs**.
3. Enter the MACRS and Other Depreciation amounts in their respective fields.

Officers' Compensation

1. To enter Officers' Compensation, select **Quick Track > Officer Compensation > Enter Officer Detail**. This takes you to the **Add new Officer** box.
2. Enter the **Officer's name**, and click **OK**.
3. Repeat these steps for the other officer.

   OR

   Select **Income and Deductions > Deductions > Officers Compensation > Individual Officers > Add new Officer**, and click **OK**.
4. Enter the information for Officer 1.
5. Select **Add new Officer** from the **Officers' Compensation** drop-down list.
6. Enter the **Officer's name**, and click **OK**.
7. Enter the information for Officer 2.

Balance Sheet

1. Select **Quick Track > Assets**. This takes you to the **Assets** screen.

   OR

   Select **Balance Sheet/M1-M2-M3 > Balance Sheet**.
2. Click the **Assets** tab.
3. Scroll down to **Other Current Assets**.

4. Enter the amount for the two prepaid items ending balances.
5. Click the **Stockholders' Equity** tab.
6. Enter the amounts for **Capital Stock - Common ending balances**. No description is necessary.
7. To accrue depreciation, click the **Accrual Options** tab.
8. Verify that the **Calculate the ending balance sheet amount** option in the depreciation section is selected.
9. To automatically calculate ending unappropriated retained earnings, select **General Information > Return and Print Options**.
10. Click the **Pg 1-5 Options** tab.
11. Click the fourth check box from the top in **1120 Options**.

Schedule M-1

1. To enter the M-1 items, select **Balance Sheet/M1-M2-M3 > Schedule M1/M2**.
2. Scroll down to **Expenses Recorded on Books Not Deducted in this Return**.
3. Go to the section **Other Book Expense not on Return**.
4. Enter the **Officers' Life Insurance Premium** here.
5. Scroll down to **Other Tax Deductions not on Book**.
6. Enter the data for **Line 8b, Other** here.

Schedule D

1. Select **Quick Track > Capital Gains/Losses**.
2. The **Add new Description of Property** box appears.

3. Enter the description of the property.

   OR

   Select **Gains and Losses > Capital Gains and Losses > Capital Asset Sale Detail > Add new Description of Property**.

4. Enter the **Description of Property**, and click **OK**.

5. Enter the Schedule D information.

> The **date acquired (Print Only)** and the **date sold (Print Only)** are used for print purposes only. To print the dates as Var (*Various*) or as *Jan 01*, you would use those fields. Other date fields require a month, day, and year to calculate properly, i.e. *MM/DD/YYYY*. Dashes or slashes are not needed.

Transmittal Letters and Filing Instructions

1. To enter letter information, select **Letters and Filing Instructions > General Options**.

2. Select ***Separate Transmittal Letter and Filing Instructions***.

   > The system default is to suppress letters.

3. Select **Letter Options**.

4. Select the **Preparer Options** button.

5. Select ***1120 Transmittal Letter*** on the left side of the screen.

6. Select the option to print the statement: ***These return(s) were prepared from information provided by you or your representative. The preparation of tax returns does not include the independent verification of information used...***.

1120 SBC, INC. CASE STUDY FACTS (CASSBM)

SBC, Inc. is an S corporation engaged in the distribution of machinery, equipment and supplies. Guidance is given for other entries for you to complete.

TARGETED AREAS

- Foreign Taxes
- Officers' Compensation
- Stock Transfer
- Schedule K entries
- Depreciation
- State Allocation/Apportionment - Indiana and Iowa

DATA ENTRY

- Verifying SBC General Information (page 14)
- Share Transfer (page 16)
- Schedule K (page 16)
  - Contributions (page 16)
  - Depreciation Adjustment (page 17)
  - Foreign Taxes (page 17)
  - Other Items (page 17)

- Income and Deduction (page 18)
  - Officers' Compensation (page 18)
  - Depreciation (page 19)
  - Gains and Losses (page 20)
  - Accumulated Adjustment Account (page 21)
- Transmittal Letter and Filing Instructions (page 21)
- State Returns (page 22)
  - State Allocation and Apportionment (page 22)
  - Indiana and Iowa Returns (page 25)
- Reviewing the Return (page 71)

DATA ENTRY

Verifying SBC General Information

1. Select **Quick Track > Entity Information**.

   OR

   Select **General Information > Basic Return Information > Entity Information** tab.

2. Enter the missing information from below.

NAME	***SBC, Inc.***
ADDRESS	***482 Wilson Street Metro City, IL 43705***
EIN	***12-3456789***
DATE OF ELECTION AS AN S CORPORATION	***12/01/2000***
DATE OF NCORPORATION	***12/01/1999***
BUSINESS CODE	***333333***
BUSINESS ACTIVITY	***Training***
PRODUCT OR SERVICE	***Widgets***

3. Select **General Information > Basic Return Information > Return Information** tab.

4. Enter the missing information from below:

NUMBER OF SHAREHOLDERS	***6***
METHOD OF ACCOUNTING	***Accrual***

5. Select **General Information > Questions > Schedule N**, and scroll down to the section **Financial Account in Foreign Country**.

6. Select ***Yes*** for the question **Did the corporation have an interest or signature or other authority over a financial account in a foreign country?**

7. Enter ***Germany*** from the drop-down list.

8. Select **General Information > Return and Print Options**.

9. In the **Accrual Options** section, select ***Calculate ending balance sheet amount***.

Share Transfer

On ***October 31, 2024***, a share transfer occurred from Shareholder #6. Five hundred shares were transferred equally to the other five shareholders.

1. Select **Shareholder Information > Share Transfers**.
2. Enter ***01/01/2024*** and ***10/31/2024*** for **Period 1 dates**.
3. Enter ***11/01/2024*** and ***12/31/2024*** for **Period 2 dates**.
4. Enter transfer of stock information in Period 2:

SHAREHOLDER	NUMBER OF SHARES
1	***100***
2	***100***
3	***100***
4	***100***
5	***100***
6	***-500***

Review the on-screen instructions. The first period must end on the transfer date.

Schedule K

CONTRIBUTIONS

1. Select **Schedule K > Deductions > Deductions**.
2. Enter ***Contributions*** for the first description line for **50% cash contributions**.
3. Verify that the **amount** column contains ***$350,000***.

DEPRECIATION ADJUSTMENT

1. Select **Schedule K > Alternative Minimum Tax Items**.
2. Enter ***-1,243,101*** for **Post-1986 depreciation adjustment**.

FOREIGN TAXES

1. Select **Quick Track > Foreign Taxes**.

   OR

   Select **Schedule K > Foreign Transactions > Foreign Transactions**.
2. Enter ***Germany*** as the foreign country.
3. Enter ***535,000*** as the **Gross income sourced at the shareholder level**.
4. Enter ***80,000*** as **Total Foreign Taxes**.
5. Enter ***428,000*** as **Deductions allocated and apportioned at shareholder level (Other)**.

OTHER ITEMS

1. Select **Quick Track > Schedule K - Other Items**.

   OR

   Select **Schedule K > Items Affecting S/H Basis > Other Info**.
2. For Tax Exempt Interest, enter ***15,000*** for **Tax Exempt Interest Income** (top line of group input section).

   A check box after the **Other Tax Exempt Income** input section stops amounts from flowing to the M-1. This option is already selected for you. Some amounts come from the journal entries.
3. For **Other Nondeductible Expenses**, scroll down, and enter ***93,000*** for **Other Nondeductible Expenses** (top of group input section).
4. For **Distributions**, enter ***6,235,800*** for **Cash Distribution Amount** under the **Items Affecting**

Shareholder Basis input section.

5. For **Other Items Reported Separately**, enter ***32,000*** for **Shareholder health insurance**.

Income and Deduction

OFFICERS' COMPENSATION

1. Select **Quick Track > Officers Compensation > Enter Officer Detail**.

   OR

   Select **Income and Deductions > Deductions > Officers Compensation > Individual Officers > Add new Officer**.

2. Enter the following:

	MARK LLOYD	JOHN LLOYD	KATHLEEN JACKSON
EIN	*209-24-3160*	*200-36-6592*	*566-44-1115*
ADDRESS	*4569 Webster St. Chicago, IL 60614*	*8909 Irving Park Road Chicago, IL 60649*	*1562 Downing Downers Grove, IL 65489*
% OF TIME DEVOTED TO BUSINESS	*100%*	*100%*	*100%*
PERCENT OF STOCK OWNERSHIP	*Common 50%*	*Common 20%*	*Common 20%*
DIRECTOR?	*Yes*	*No*	*No*
TITLE	*President*	*Vice President*	*Chief Financial Officer*
SALARY	*$775,000*	*$400,000*	*$600,000*

DEPRECIATION

General Depreciation

1. Select **Income and Deductions > Deductions > Depreciation and Amortization > General Depreciation and Amortization > 4562 Information > 4562 Overrides**.

2. Enter the following information:

	BASIS	RECOV.	CONV.	METHOD	CURRENT YR. DEPREC.
7 year	***933,051***	***7.00***	***HY***	***200DB***	***133,333***

3. Enter ***1,615,300*** for **MACRS Deduction for assets placed in service during prior tax years**.

Depreciation - Rental

1. Select **Income and Deductions > Rental Activity > RRE-001 > Activity Information**.

2. Enter ***001*** for the **Activity Number**.

3. Go to **Income and Deductions > Deductions > Depreciation and Amortization > 4562 Information > Form 4562 Overrides**.

4. Enter the following:

	BASIS	RECOV.	CONV.	METHOD	CURRENT YR. DEPREC.
5 year	***9,000,000***	***5.00***	***HY***	***200DB***	***1,800,000***
7 year	***2,066,949***	***7.00***	***HY***	***200DB***	***295,367***

5. On the same tab, enter the following for **Nonres...**:

DATE IN SERVICE	BASIS	CURRENT YR. DEPRECIATION
09/01/2024	***10,000,000***	***74,900***

GAINS AND LOSSES

1. Select **Quick Track > Schedule D / Form 4797 > Sales of Business Property**.

   OR

   Select **Gains and Losses > Disposition of Property > Disposition Detail > Create Disposition**.

2. Enter ***Machinery & Equipment*** in the **Description of Property** entry box.
3. Under **Disposition Type**, click ***Select Form***.
4. Click the drop-down arrow and click ***Form 4797***.
5. Go to **Type of Property**, and click ***Select Type of Property***.
6. Click the drop-down arrow, and click ***Section 1245***.
7. Do an **Auto Compute** after the **Type of Property** is entered.
8. Select **Sales of Business Property**.
9. Click ***Machinery and Equipment***.

10. Verify that the **Description of Property** is ***Machinery and Equipment*** and that the **Type of Property** is ***Section 1245***.

11. Enter the following:

DATE ACQUIRED	***01/01/2010***
DATE SOLD	***08/01/2024***
GROSS SALES PRICE	***50,000***
COST OR OTHER BASIS	***2,000,000***
ACCUMULATED DEPRECIATION	***2,000,000***
ACE ACCUMULATED DEPRECIATION	***1,888,675***

ACCUMULATED ADJUSTMENT ACCOUNT

1. Select **Balance Sheet/M1-M2-M-3 > Schedule M1 / M2 > M2 Reconciliation** tab.

2. Enter ***8,575,566*** as the **AAA balance at the beginning of the year**.

Transmittal Letter and Filing Instructions

1. Select **Quick Track > Letters**.

   OR

   Select **Letters and Filing Instructions > General Options**.

2. Select ***Separate Transmittal Letter and Filing Instructions***.

3. Select **Letters and Filing Instructions > Letter Options > Preparer Options**.

4. Verify that this statement is selected in the **S Corporations** section: ***In addition, we are enclosing a Schedule K-1 for each shareholder. Please distribute as soon as possible.***

State Returns

STATE ALLOCATION AND APPORTIONMENT

1. Select **States > Allocation and Apportionment > A&A Activation**.
2. Select the **Activate Allocation and Apportionment Area** check box.

3. Select **A&A Data Entry**, then each allocation factor.

4. Enter the beginning and/or ending amounts for the following allocation and apportionment factors:

	INDIANA		IOWA	
	BEGINNING	ENDING	BEGINNING	ENDING
PROPERTY DATA ENTRY				
Inventories	6,850,000	7,700,000		
Land	1,000,000	1,000,000		2,000,000
Buildings	34,000,000	34,000,000		10,000,000
Bldgs. Accum. Depr.	9,120,000	10,480,000		133,333
Mach. & Equip.	35,000,000	33,000,000		9,000,000
Mach. Accum. Depr.	35,000,000	33,000,000		600,000
Furniture & Fixtures	6,000,000	6,000,000		3,000,000
Furn.&Fix Accum. Dep.	6,000,000	6,000,000		200,000
Rental-Tang. Per.		433,000		
PAYROLL DATA ENTRY				
Other Salaries/Wages		19,155,000		1,000,000
SALES DATA ENTRY				

	INDIANA		IOWA	
	BEGINNING	ENDING	BEGINNING	ENDING
Within to Within State		***86,000,000***		
Within to Non-tax Juris.		***48,000,000***		
Rents				***2,000,000***
Other Interest		***80,000***		
Real & Tang. Property		***50,000***		
Other Receipts		***23,022***		

INDIANA AND IOWA RETURNS

To add Indiana and Iowa returns:

1. Select **States > State and City Activation > State and City Activation**.
2. Check the **State Activation** box in **Column B** for Indiana and Iowa.
3. Check the box in **Column B** for **Allocation and Apportionment**.

1120 TALLY, INC. CASE STUDY FACTS (CASTAM)

Tally, Inc. is a C Corporation. Prior to this year, the 1120 return was prepared manually. (The data has been simplified for purposes of the exercise.) Tally, Inc. recently purchased a high rise building and owns a retail facility in California. The California sales manager sells some “hard to find” products to a sporting goods supplier in Arkansas each year. Tally, Inc. is not part of a consolidated group, not a personal holding company, and not a personal service corporation. Tally, Inc. uses the accrual method of accounting.

TARGETED AREAS

- 1120 Tax Analysis
- Income and Deductions
- Depreciation Overrides
- Officer compensation
- Gains and Losses
- Foreign Owned Corporation
- Foreign Tax Credit
- NOL Carryovers
- State Allocation and Apportionment
    - Arkansas
    - California
    - Illinois

USING THE TAX APPLICATION

- **Return and Print Options (page 28)**
- **Other Information - Questions (page 29)**

- Schedule N Questions (page 29)
- Paid Preparer Information (page 30)
- Income (page 30)
- Cost of Goods Sold (page 31)
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- State Information (page 55)
  - Common State (page 55)
  - Allocation and Apportionment (page 57)
  - Arkansas (page 65)
  - California (page 65)
  - Illinois (page 67)

DATA ENTRY

- Using and Reviewing the Tax Application (page 69)
- Reviewing the Return (page 71)

USING THE TAX APPLICATION

Return and Print Options

Suppress the page numbers when printing should be selected.

1. Select **Organizer > Quick Track > Return and Print Options > Basic Options**.
2. Under the **Every Page Print Options** section, select ***Suppress Page Number***.
3. To automatically calculate retained earnings, select **Organizer > Quick Track > Return and Print Options > Page 1 - 5 Options**.
4. Under the **1120 U.S. Corporation Options** section, select the check box: **Automatically calculate ending unappropriated retained earnings**.
5. To select accrual options, select **Organizer > Quick Track > Return and Print Options > Accrual Options**.
6. Scroll down to the **State Tax Accrual** section.
7. Enter ***$11,000,000*** for the **Current year book state tax expense**.

Other Information - Questions

1. Select **Quick Track > Entity Information**.
2. Enter the following information:

METHOD OF ACCOUNTING (RETURN INFORMATION TAB)	***Accrual***
PRINCIPAL BUSINESS CODE	***451110***
PRINCIPAL BUSINESS ACTIVITY	***Retailer***
PRODUCT OR SERVICE	***Sporting Goods***

3. Select **Quick Track > Sch K Questions**.
4. For **Ownership of Other Corporations not included on Form 851**, answer ***Yes*** to the question: *…50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation…*
5. Click the button labeled **If yes, provide detail**.
6. On the next screen, enter ***Moon Dreams, Inc.*** as the **Name**.
7. Enter the following:

EIN	***56-2365894***
PERCENTAGE OWNED	***70.00***
COUNTRY OF ORGANIZATION	***United States***

8. Now click the previous button on the toolbar to return to where you were before you clicked the **If yes, provide detail** button.
9. Under **Foreign Ownership**, select ***Yes*** to the question about 25% ownership of all stock.
10. Enter that one of the owners lives in ***Germany*** and owns ***30% of the voting rights*** to the company's stock.

Schedule N Questions

During 2024, the corporation had an interest in a financial account in Germany.

1. Select **Organizer > General Information > Questions > Schedule N**.
2. Scroll down to the Financial Account in the **Foreign Country** section.
3. Answer ***Yes*** to the question about authority over a financial account.
4. Select ***Germany*** for the name of the foreign country.

Corporation Owns 50% of Stock

1. Select **Organizer > General Information > Questions > Schedule K**.
2. You should have entered this already so verify that the information is correct:

NAME	***Moon Dreams, Inc.***
EIN	***56-2365894***
PERCENTAGE OWNED	***70%***

Paid Preparer Information

1. Select **Organizer > General Information > Paid Preparer Information/ERO Information**.
2. Select the check box to suppress the paid preparer information.

Income

1. Select **Quick Track > Income**.

   OR

   Select **Income and Deductions > Income**.
2. Verify the following for **gross receipts**: ***$1,200,000,000***
3. Verify Dividend Income from Schedule C. Click **Schedule C Dividends > Dividend Income**.
4. Verify the following for **dividends from 20% or more owned corporations subject to 80% deduction**: ***40,000***.

5. Enter the description of **Dividend Income**.
6. Click the **Previous** button to return to the **Income** Organizer. Enter the following for **interest on US obligations**: ***2,000***.
7. Verify the following for **other interest income**: ***90,000***.
8. Scroll down to verify the following:
   - Capital Gain Income: ***17,000***
   - 4797 Gain or Loss: ***41,000***
9. For **Other Income**, verify **miscellaneous income**: ***30,000***.

Cost of Goods Sold

1. Select **Income and Deductions > COGS/COOPS**.
2. Verify the following information:

BEGINNING INVENTORY	***$ 5,905,000***
PURCHASES	***$ 858,145,000***
COGS - DEPRECIATION	***$ 3,718,900***
OTHER COSTS - (MISCELLANEOUS OTHER COST OF GOODS SOLD	***$ 144,376,500***
ENDING INVENTORY	***$ 8,150,000***

3. For the method of inventory valuation, verify that ***Lower of cost or Market*** is checked.
4. Verify that ***Yes*** is selected for **The rules of section 263A apply to this corporation**.
5. Verify that ***No*** is selected for **There was no change in determining quantities, cost, or valuations between the opening and closing inventory amounts**.

Officer Information

1. Select **Income and Deductions > Deductions > Officers Compensation > Individual Officers > Add new Officer**.
2. Enter the officer information:

NAME	*Joseph Star*	*John Sanders*	*Kathryn Smith*
ADDRESS	*4569 Webster Street Chicago, IL 60614*	*8909 Park Blvd Chicago, IL 60649*	*1562 Downing Grove, IL 65489*
SSN	*123-45-6789*	*456-45-8565*	*548-85-5666*
TITLE	*Chairman*	*Vice President*	*President*
% OF TIME DEVOTED TO BUSINESS	*100%*	*100%*	*100%*
% OF CORP. COMMON STOCK OWNED	*20%*	*20%*	*20%*
AMOUNT OF COMPENSATION	*$ 600,000*	*$ 400,000*	*$ 775,000*

Deductions

1. Select **Income and Deductions > Deductions > Detail**.
2. Verify the following:
   - **Compensation of Officers**: ***1,775,000***
   - **Salaries and Wages**: ***3,900,000***
3. Change the repair amount from ***2,200*** to *4,200*:
   - **Repairs**: **4,200**
4. Enter ***Repairs*** as the **Description**.

5. Verify the following expenses:
   - **Bad Debts**: ***300,000***
   - **Rent Expense**: ***33,000***
6. Enter ***Rent Expense*** as the **Description**.
7. Enter the following amounts for taxes:

PAYROLL TAXES	***370,000***
SALES AND USE TAX	***20,000***
REAL PROPERTY TAX	***350,000***
PERSONAL PROPERTY TAX	***10,000***
FRANCHISE TAXES	***111,000***
OTHER TAXES	***6,000***
TOTAL TAX	***867,000***

8. Enter the following:
   - **State and Local Taxes**: ***11,000,000***
   - **Interest Expense**: ***130,000***
9. Enter ***Interest Expense*** as the **Description**.

10. Enter the following:
    - **Charitable Contributions**: ***350,000***
    - **Depreciation balance to Page 1 Override**: ***200,000***
    - **Amortization**: ***444,444***
11. For **Advertising**, enter the descriptions and amounts as follows:
    - **Advertising**: ***1,200,000***
    - **Promos**: ***40,000***
    - **Samples**: ***30,000***
    - **Total Advertising**: ***1,270,000***
12. For **Pension/Profit Sharing**, enter the descriptions and amounts as follows:
    - **Benefit Plans Expense**: ***4,330,000***
    - **Non-Qualified Benefit Plans Exp.**: ***2,000,000***
    - **Total Pension/Profit Sharing**: ***6,330,000***
13. For the **Employee Benefit Program**, enter ***Employee Benefit Programs*** as the **Description**, and enter ***1,400,000*** as the amount.
14. For **Meals and Entertainment (100%)**, enter ***149,500***.

15. Enter amounts for **Other Deductions**:

DIRECTORS FEES	***250,000***
EMPLOYEE RELATIONS	***112,000***
FEES AND SERVICES	***42,000***
OUTSIDE SERVICES	***60,000***
POSTAGE AND FREIGHT	***200,000***
ENVIRONMENTAL EXPENSE	***2,300,000***
PROFESSIONAL FEES	***2,000,000***
TRAVEL	***900,000***
WAREHOUSE AND STORAGE	***30,000***
MISCELLANEOUS	***90,000***
MISC. EMPLOYEE BENEFITS	***297,000***
INSURANCE PREMIUMS	***1,662,222***
UTILITIES	***170,000***
SUPPLIES	***230,000***

TOTAL OTHER DEDUCTIONS	***8,343,222***

Depreciation

The business uses asset management software to keep track of the company's assets. Enter the summary amounts only for purposes of generating the 4562.

1. Select **Income and Deductions > Deductions > Depreciation and Amortization > General Depreciation and Amortization > Form 4562 Information > 4562 Overrides**.

2. Enter the following:

BASIS	***9,000,000***	***3,000,000***
RECOVERY PERIOD	***5.0***	***7.0***
CONVENTION	***HY***	***HY***
METHOD	***200DB***	***200DB***
CURRENT YEAR DEPRECIATION	***1,800,000***	***428,700***

3. For the nonresident, enter the following:

DATE PLACED IN SERVICE	***09/01/2024***
BASIS	***10,000,000***
RECOVERY PERIOD	***39 Yr.***
CONVENTION	***HY***
METHOD	***200DB***
CURRENT YEAR DEPRECIATION	***1,800,000***

4. Take the MACRS deduction for assets placed in service during prior tax years: ***1,615,300***.
5. The business also had amortization that should be recorded. Scroll down and enter:
   - **Description**: ***Intangible Assets***
   - **Date**: ***09/01/2024***
   - **Amount**: ***$20,000,000***
   - **Code Section**: ***Section 197***
   - **Life/Period**: ***15 years***
   - **Current Year amortization**: ***$ 444,444***

Contributions

1. Select **Income and Deductions > Deductions > Contributions > Current Year Contributions**.
2. Verify the amount for **Charitable Contributions**: ***$ 350,000***.

Net Operating Losses

1. Select **Income and Deductions > Deductions > Net Operating Loss > Non-SRLY NOL**.
2. Verify that the corporation has an NOL Carryforward with the remaining amount generated of ***$20,000,000*** from 2020.

Organizer Overrides

1. Select **Income and Deductions > Deductions > Detail**.
2. Scroll down to **Depreciation to page 1 if no detail**.
3. Verify that the depreciation is entered: ***$ 200,000***.
4. Make sure that the box for **Override total, claimed elsewhere and net depreciation** is checked.
5. Select **Income and Deductions > COGS/COOPS**.
6. Verify that the **Cost of Goods Sold Depreciation** is entered as ***$3,718,900***.

NOL Carryovers

1. Select **Carryovers, Footnotes, and Invoicing > Carryovers > Computed Carryover Detail > Carryover Detail > Regular NOL > Non-SRLY NOL** tab.
2. Verify that the **2020 Carryover from prior years** is ***$20,000,000***.

AMT NOL Carryovers

1. Select **Carryovers, Footnotes, and Invoicing > Carryovers > Computed Carryover Detail > Carryover Detail > AMT NOL with 90% AMTI Limit > AMT NonSRLY NOL** tab.
2. Verify that the **2020 Carryover from prior years** is ***$25,176,479***.

Pass-Through Entity

1. Select **Income and Deductions > Pass-Through Entity > Pass-Through Entity > Add new Pass-Through Entity**.

2. Enter ***XYZ Partnership***.
3. Select the **Income/Deductions** tab.
4. Enter the following:
   - **Ordinary income (line 1)**: ***$ 6,000***
   - **Net long-term capital gain (loss) (line 9a)**: ***$ 7,000***

Gains and Losses

1. Select **Quick Track > Sales of Business Prop**.

   OR

   Select **Gains and Losses > Disposition of Property > Disposition Detail > Create Disposition of Property**.
2. Enter ***Machinery & Equipment*** in the **Description of Property** entry box.
3. Under ***Disposition Type***, click ***Select Form***, and click the drop-down arrow.
4. Click ***Form 4797***.
5. Go to **Type of Property**.
6. Click ***Select Type of Property***, and click the drop-down arrow.
7. Click ***Section 1245***.
8. Do an auto compute after **Type of Property** is entered.
9. Select **Sales of Business Property**.
10. Click **Machinery and Equipment**.
11. Verify that the **Description of Property** is ***Machinery and Equipment*** and that the **Type of Property** is

Section 1245.

12. Enter ***Machinery and Equip*** and click **OK**.

DATE ACQUIRED	***01/01/2017***
DATE SOLD	***07/01/2024***
SALES PRICE	***$ 35,000***
COST	***$2,000,000***
ACCUM DEPRECIATION	***$2,000,000***
AMT ACCUM DEPRECIATION	***$2,000,000***
ACE ACCUM. DEPRECIATION	***$1,888,675***

Capital Asset Sales

1. Select **Gains and Losses > Capital Gains and Losses > Capital Asset Sale Detail > Add new Description of Property**.
2. Enter ***ABC Stock*** and click **OK**.
3. Enter the following:
   - **Cost**: ***$40,000***
   - **Sales Price**: ***$55,000***
   - **Date Purchased**: ***01/15/2024***
   - **Date Sold**: ***07/20/2024***
4. Select **Add new Description of Property**.

5. Enter ***DEF Stock*** and click **OK**.
    - **Cost**: ***$5,000***
    - **Sales Price**: ***(Leave blank)***
    - **Date Purchased**: ***02/01/2024***
    - **Date Sold**: ***12/31/2024***

In this case study, you made journal entry #16, which reclassified Net Capital Gain of $10,000 to the categories required by the M-3. As there was no book/tax difference for these items, you did not need to make entries that would affect the M-1. The entry was as follows:

GL ACCT#	DESCRIPTION	DEBIT	CREDIT
TAX31-620	***Capital Gain Net Income (Schedule D) (Subtracts 10,000 on Part II, line 23a, column (c))***	***$ 10,000***	
605	***Worthless Stock (Enters -5,000 on Part II, line 23f, column (c))***	***$ 5,000***	
606	***Gross Capital Gains from Schedule D, excluding flow-through entities (Enters 15,000 on Part II, line 23b, column (c))***		***$ 15,000***

This entry was classified as a permanent difference.

By bridging this entry into the tax application, you want the software to use the bridged amounts on Schedule M-3 rather than the calculated amounts from the detail information entered in the gains and losses section of the software. If you want the software to use the bridged amounts, you must activate the option box **Do not carry gain/loss from Sch D and Form 4797 as a permanent difference to Part II, lines 23b through 23f** on the **M-3** Organizer screen.

The preferred method of entering gains and losses on returns having an M-3 is to bridge only the original book amount (in this case $10,000) and not make the reclassification entry at all. Then enter the gains and losses information in the tax application Organizer screen for each sale. Choose an option on the Organizer screen under **Schedule M-3 Classification**: *Flow-through entity*, *Abandonment loss*, or *Worthless stock (if applicable)*. The software will automatically populate column (c) on the appropriate line of M-3, Part II, line 23.

If one of the above options is not selected, the software will determine whether the transaction results in a gain or loss and will populate the M-3, Part II, lines 23b, Gross capital gains, or 23c, Gross capital losses accordingly. If the sale is from a flow-through entity, marking the radio button will exclude the amount from any part of line 23, but it will not flow to line 9, 10, or 11 of Part II. These lines require all income to be reported, not just gains and losses from flow-through entities.

Adjustments and Preferences Alternative Minimum Tax

1. Select **Taxes > Alternative Minimum Tax > Alt. Min. Tax t**ab.
2. Scroll down and enter the following:
    - **Depreciation of Post 1986 Property (Override) (Negative)** : ***-$1,243,101***
    - **ACE Adjustment Override: (Negative)**: ***-$551,162***

ACE/AMT Adjustments

1. Select **Taxes > Alternative Minimum Tax > ACE Worksheet** tab.
2. Scroll down to **ACE Depreciation Adjustments**.
3. Enter the following:
    - **AMT Depreciation Override**: ***$5,162,001***
    - **Post 1993 Property**: ***$1,014,730***
    - **Post 1989, pre 1994 Property**: ***$4,435,841***
    - **Pre 1990 MACRS Property**: ***$ 200,000***
    - **Pre 1990 original ACRS Property**: ***$ 166,988***
4. Scroll down to **Disallowance Items not Deductible from EP**.

5. Enter the following for **Certain Dividends Received**: ***$ 32,000***.
6. Scroll down to **Amounts Used for ACE Carryover Calculation**. Verify the following:

YEAR	ACE	PREADJUSTMENT AMTI
2007	***600,000***	***400,000***
2008	***800,000***	***150,000***
2009	***1,800,000***	***1,250,000***
2010	***900,000***	***250,000***
2011	***-50,500,000***	***-50,250,000***
2012	***4,350,000***	***4,500,000***
2013	***23,601,211***	***24,195,350***

Payments of Tax

1. Select **Quick Track > Tax Payments**.
2. Verify 2023 overpayment credited to 2024 of ***$50,000***.
3. Enter Quarterly Payments:
   - **1st - 04/15/2024**: ***$ 125,000***
   - **2nd - 06/15/2024**: ***$19,875,000***
   - **3rd - 09/15/2024**: ***$20,000,000***
   - **4th - 12/15/2024**: ***$10,000,000***
4. The corporation also made a payment on ***03/14/2025*** of ***$5,400,000*** to send with their extension request.

Estimates and Penalties

Underpayment of Estimates

1. Select **Estimates and Penalties > Underpayment of Estimate > 2220 Penalty** tab.
2. Verify that Option 4 has been selected to ***Suppress computation and printing of Form 2220***.
3. Under the **Penalties/Interest** tab, verify that the following check boxes are selected: **Do not compute late payment interest** and **Do not compute penalty**.

Estimated Taxes

1. Select **Estimates and Penalties > Estimated Tax > Estimated Tax/Ovrpay** tab.
2. For the computation of the 2025 estimated tax, verify that **Option 1** is selected: ***Estimate based on Current year tax liability***.
3. For the application of the 2024 overpayment, select the following option: ***Apply entire overpayment***.
4. Verify that ***Rounding to the 1st dollar*** is selected.
5. Scroll down to the **Extended Return** section.
6. For payments on the 2025 estimate, enter the following:
   - **1st installment payment**: ***$12,000,000***
   - **2nd installment payment**: ***$12,000,000***

Balance Sheet

1. Select **Balance Sheet/M1-M2-M3 > Balance Sheet > Asset** tab.

ASSETS	BEGINNING	ENDING
Cash	***$32,620,000***	***$ 9,000,000***
ENTER DESCRIPTION OF *CASH*		
Accounts Receivable	***15,000,000***	***23,000,000***
ENTER DESCRIPTION OF *TRADE NOTES AND ACCOUNTS RECEIVABLE*		
Allowance for Doubtful Accounts	***2,000,000***	***3,000,000***

2. Under **Inventories** , enter the following descriptions and amounts:

ASSETS	BEGINNING	ENDING
Inventories	***$ 7,000,000***	***$ 9,000,000***
Less: Obsolescence Reserve	***1,345,000***	***1,200,000***

3. Verify the following:

ASSETS	BEGINNING	ENDING
Net Inventory	***$ 5,655,000***	***$ 7,800,000***
Prepaid Insurance	***475,000***	***1,130,000***
Investment in Subsidiary	***18,000,000***	***18,000,000***
Depreciable Assets	***75,000,000***	***95,000,000***
Less: Accumulated Depreciation	***50,120,000***	***50,413,333***
Land (net of amortization)	***1,000,000***	***3,000,000***
Intangible Assets		***20,000,000***
Less: Accumulated Amortization		***444,444***
Total Assets	***$95,630,000***	***$123,072,223***

Liabilities and Stockholder's Equity

1. Select **Balance Sheet/M1-M2-M3 > Balance Sheet > Liabilities** tab.

2. Enter the following:

LIABILITIES	BEGINNING	ENDING
Accounts Payable	***$ 7,000,000***	***$ 9,000,000***
ENTER DESCRIPTION OF *ACCOUNTS PAYABLE*		
Current Notes Payable	***1,000,000***	***1,000,000***
ENTER DESCRIPTION OF *MORTGAGES, NOTES, BONDS PAYABLE*		
Taxes Payable	***3,114,000***	***4,010,223***
Bonuses Payable	***5,925,000***	***12,725,000***
Commissions Payable	***250,000***	***1,400,000***
Interest Payable	***50,000***	***75,000***
Utilities and Other Payables	***190,000***	***261,000***
Incentive Savings Plan-401K	***4,000,000***	***6,000,000***
Prepaid Income	***4,000,000***	***6,000,000***
Workers Compensation Accrual	***3,600,000***	***1,800,000***
Other Mortgages Notes and Bonds	***14,000,000***	***13,000,000***
Post Retirement Payable	***15,500,000***	***20,300,000***

LIABILITIES	BEGINNING	ENDING
Warranty Reserves	***2,000,000***	***2,500,000***

3. Select **Balance Sheet/M1-M2-M3 > Balance Sheet > Stockholder's Equity** tab.
4. Enter the following:

LIABILITIES	BEGINNING	ENDING
Common Stock (10,000 shares common)	***1,000***	***1,000***
ENTER DESCRIPTION OF *COMMON STOCK*		
Paid-in or Capital Surplus	***10,000,000***	***10,000,000***
ENTER DESCRIPTION OF *PAID-IN CAPITAL*		
Retained earnings (unappropriated)	***25,000,000***	***35,000,000***
Total Liabilities and Equity	***$95,630,000***	***$123,072,223***

5. Verify that the following check box is selected: **Automatically compute ending unappropriated retained earnings**.
6. Under the **Accrual Options** tab in **State Tax Accrual**, verify that the **Current year book state taxes expense** is ***$ 11,000,000***.

Schedule M-1/M-2

M-1 Reconciliation

1. Select **Balance Sheet/M1-M2-M3 > Schedule M1/M2 > Reconciliation (M-1)** tab.
2. Select the check box **Suppress automatic calculation**.

3. Verify the following:
   - **Net Income per books**: ***$101,605,800***
   - **Federal Income Tax**: ***56,000,000***
   - Travel and Entertainment (T&E) does not need to be entered here. An adjustment of $74,750 will automatically be made by the tax application since the T&E expenses of $149,500 were entered on 1120, Page 1 as a deduction subject to the meals and entertainment limitation.
4. On the **M-1 Reconciliation** tab, enter the following for **Other Expenses recorded on Books Not Deducted in the return**:
   - **Sec. 263A Ending Inventory Adjustment**: ***$ 350,000***
   - **Warranty Reserve**: ***500,000***
   - **Club Dues**: ***20,000***
   - **Foreign Taxes**: ***80,000***
   - **Bad Debt Reserve (NON-475)**: ***1,000,000***
   - **Post Retirement**: ***4,800,000***
   - **Total**: ***$ 6,750,000***
5. Enter the following for **Income on Books Not Included in the return**:
   - **Unrealized foreign exchange gain reversal**: ***$ 40,000***
   - **Other**: ***2,000***

6. Enter the following for **Other Deductions in this return not charged against Book Income**:
   - **Depreciation**: ***$ 1,625,566***
   - **Inventory Obsolescence Reserve**: ***145,000***
   - **Prepaid Insurance**: ***365,000***
   - **Sec. 263A Inventory Adjustment**: ***250,000***
   - **Workers Compensation**: ***1,800,000***
   - **Bonuses**: ***400,000***
   - **Total**: ***$ 2,960,000***

M-2 Analysis

1. Select **Balance Sheet/M1-M2-M3 > Schedule M1/M2 > Retained Earnings (M-2)** tab.
2. Verify that **Cash Distributions** is ***$91,605,800***.

Asset Acquisition

1. Select **Informational Forms > Asset Acquisition > Add new Name of other party**.
2. Enter ***Sun Company*** and click **OK**.
3. Verify that this option is selected: ***Filer Information is Seller***.
4. Enter the rest of the information related to the acquisition:

OTHER PARTY ID #	***15-9998776***
ADDRESS	***123 Alfalfa Street Spartanburg, CA 91432***
DATE OF SALE	***09/01/2024***
TOTAL SALES PRICE	***$44,000,000***

5. Scroll down and enter the Assets Transferred:

	AGGREGATE FMV	ALLOCATION OF SALES PRICE
Class III	***24,000,000***	***24,000,000***
Class IV	***20,000,000***	***20,000,000***

6. Select the check boxes related to the above note.

Buyer and Seller provided for allocation of sale price in writing and aggregate FMV was agreed upon in writing.

Foreign Information

25% Foreign Owned Corporation

1. Select **Foreign Information > 25% Foreign Owned Corporation > Common Information > Common Information**.
2. Enter the following:
   - **Total value of gross payments**: ***$25,000,000***
   - **Total number of Forms 5472 filed for the tax year**: ***49***
3. Verify that the company is incorporated, files tax returns, and has its principal business in the United States.
4. Select **Common Shareholder Information**, and verify all information:

NAME	***Sun-GmbH***
ADDRESS	***22 Millstrasse*** ***Fruehauf, Germany***

5. The company is incorporated, files under the law, and has principal business in Germany.

6. Select **Foreign Information > 25% Foreign Owned Corporation > Add New Related Party > Mandatory Entry - Related Party**.
7. Enter ***Sun GmbH***.
8. Enter all information:

NAME	***Sun-GmbH***
ADDRESS	***22 Millstrasse*** ***Fruehauf, Germany***
PRINCIPAL BUSINESS	***Stationery***
BUSINESS LOCATION AND RESIDENCE	***Germany***

Monetary Transactions

1. Select **Foreign Information > 25% Foreign Owned Corporation > Sun-GmbH > Monetary Transactions**.
2. Go to **Exchange Rate Schedule**.
3. Enter ***Amounts entered are in U.S. Dollars*** in the **Description** field.
4. Enter ***1.0*** in the **Ratio** field.
5. Enter ***$25,000,000*** for **Sales of stock in trade**.

Additional Information

1. Select **Foreign Information > 25% Foreign Owned Corporation > Sun-GmbH > Additional Information: Form 5472, Part VI**.
2. Verify that the question *Does the reporting corporation import goods from a related party* is answered ***Yes***.
3. Verify the second question *Is the basis in the goods valued differently than the customs value of the imported goods?* is answered ***No***.

Transmittal Letter and Filing Instructions

The Tally Inc. return does not want any transmittal letter or filing instructions. Suppress all the letters.

1. Select **Letters and Filing Instructions > General Options**.
2. Select the option to ***Suppress All Letters***.
3. Perform a full recompute of the return.

State Information

In this section, you start by setting up your common state information. Once complete, all of these items will automatically carry to any state that has the common state field. Then import any apportionment information and add any specific state entries.

On early releases of the tax software, you may not be able to complete the state returns. Complete this section only for the states that have been released.

Verify that all the states listed below have been activated.

Common State

1. To add/delete states, select **Quick Track > Add/Delete States**.
2. Verify that ***Arkansas***, ***California***, and ***Illinois*** are selected.

Miscellaneous State Information

1. Select **States > Common State > General Information**. Verify the following:

STATE OF INCORPORATION	***Delaware***
STATE OF COMMERCIAL DOMICILE	***Illinois***
LOCATION OF ACCOUNTING RECORDS AND PRINCIPAL BUSINESS	***Tally, Inc.*** ***600 Bay Street*** ***Chicago, IL 60699***

2. Enter the **Business Telephone Number**: ***1-800-555-2817***.

Tax Estimate Options

1. Select **States > Common State > Tax Estimate Options > Overpayment** tab.
2. Select ***Apply entire overpayment to estimate. Credit excess to future years***.

Extensions and Estimates

1. Select **States > Common State > Extension and Estimates > Payments** tab.
2. Scroll down to **Estimates - Payments made on current return**.
3. Enter the following:

	PAYMENT 1	PAYMENT 2	PAYMENT 3	PAYMENT 4
Arkansas	***1,250***	***1,250***	***1,250***	***1,250***
California	***50,000***	***100,000***	***100,000***	***100,000***
Illinois	***2,500,000***	***2,500,000***	***2,000,000***	***2,000,000***

4. California also had a prior year overpayment of ***$50,000***.
5. Illinois is going to be put ***on extension*** and the payment to be made with the extension will be ***$400,000***.

Once the return is computed, the information entered here will carry automatically to the **Common State Adjustments** Organizer in the **Taxes > State Income Taxes** folder.

Tax Accruals

1. Select **States > Common State > Tax Accrual > Accrual Options** tab.
2. Verify ***$11,000,000*** for **current year book state tax expense**.
3. Verify that the check box to **disable automatic accrual** is selected.

Depreciation

1. Select **States > Common State > Depreciation > State Depr Options/Gains**.
2. For California, enter a check in the **B** column.

Print Options

1. Select **States > Common State > Print Options > Management Report Options**.
2. Select: ***Arkansas***, ***California***, and ***Illinois***.

Allocation and Apportionment

The Allocation and Apportionment (A&A) DIF file (**TallyAA.dif**) and a template file (**TallyA&A.kat**) need to be used to import the allocation and apportionment data for the three states.

Electronic files for A&A are located in the **C:\Program Files(x86)\RIA\RS2024** directory.

1. To import the A&A data, select **File > Import > From DIF file**.
2. Enter the path shown above and the DIF file:
   - **TallyAA.dif** in the **DIF File** field (first field):
   - **DIF File** field example: **C:\Program Files(x86)\RIA\RS2024\TallyAA.dif**
3. Enter the path and **TallyA&A.kat** in the **Template** field (second field):
   - **Template field** example: **C:\Program Files(x86)\RIA\RS2024\TallyA&A.kat**
4. If you are not sure, click either the **DIF** field or the **Template** field and use your **Browse** button to find the file.
5. Once you have entered both file names, select **Import**.
6. The file will be imported and a prompt *Import Successful* appears.
7. Click **OK** to close the message box.

A&A Activation

1. Select **States > Allocation and Apportionment > A&A Activation**.
2. Click the box to **Activate the Allocation and Apportionment Area**.
3. Select **Compute > Full Recompute** to recompute the tax return.

Reviewing the Imported Data

1. Select **States > Allocation and Apportionment > A&A Data Entry > Property Data Entry**.

2. Verify the imported property data:

STATE	BEGINNING	ENDING
INVENTORY		
ARKANSAS		3,000,000
CALIFORNIA	1,055,000	1,000,000
ILLINOIS	4,600,000	3,800,000
EVERYWHERE	5,655,000	7,800,000
LAND		
ILLINOIS	1,000,000	3,000,000
EVERYWHERE	1,000,000	3,000,000
BUILDINGS		
ARKANSAS		10,000,000
CALIFORNIA	5,000,000	5,000,000
ILLINOIS	29,000,000	29,000,000
EVERYWHERE	34,000,000	44,000,000
BUILDINGS ACCUMULATED DEPRECIATION		

STATE	BEGINNING	ENDING
ARKANSAS		133,333
CALIFORNIA	1,040,000	1,170,000
ILLINOIS	8,080,000	9,310,000
EVERYWHERE	9,120,000	10,613,333
MACHINERY AND EQUIPMENT		
ARKANSAS		9,000,000
ILLINOIS	35,000,000	33,000,000
EVERYWHERE	35,000,000	42,000,000
MACHINERY AND EQUIPMENT ACCUMULATED DEPRECIATION		
ARKANSAS		600,000
ILLINOIS	35,000,000	33,000,000
EVERYWHERE	35,000,000	33,600,000
FURNITURE AND FIXTURES		
ARKANSAS		3,000,000
ILLINOIS	6,000,000	6,000,000

STATE	BEGINNING	ENDING
EVERYWHERE	*6,000,000*	*9,000,000*
FURNITURE AND FIXTURES ACCUMULATED DEPRECIATION		
ARKANSAS		*200,000*
ILLINOIS	*6,000,000*	*6,000,000*
EVERYWHERE	*6,000,000*	*6,200,000*
RENTALS: GROSS RENTALS TANGIBLE PERSONAL PROPERTY		
ILLINOIS		*4,033,000*
EVERYWHERE		*4,033,000*

3. Review the imported payroll data. Select **States > Allocation and Apportionment > A&A Data Entry > Payroll Data Entry**.

4. For **Officer/Salesman**, verify the following:

   - **Officer Compensation for Illinois**: ***1,775,000***
   - **Officer Compensation for Everywhere**: ***1,775,000***

5. For **Other Salaries and Wages**:

   - **Arkansas**: ***30,000,000***
   - **California**: ***950,000***
   - **Illinois**: ***90,150,000***
   - **Everywhere**: ***121,100,000***

6. Review the imported Sales data. Select **States > Allocation and Apportionment > A&A Data Entry > Sales Data Entry**.

7. Review the Receipts from Sales:

STATE	SALES WITHIN STATE TO WITHIN STATE	SALES WITHOUT STATE TO WITHIN STATE
ARKANSAS	***25,000,000***	***200,000,000***
CALIFORNIA	***23,000,000***	
ILLINOIS	***476,000,000***	***475,000,000***
EVERYWHERE	***524,000,000***	***675,000,000***

8. Review **Interest and Dividends**:
   - For **Other Interest**:
     - **Illinois**: ***90,000***
     - **Everywhere**: ***90,000***
   - For **Other Dividends**:
     - **Illinois**: ***40,000***
     - **Everywhere**: ***40,000***

9. Review the **Sales of Assets. For Gross Proceeds - Sales of Real and Tangible Personal Property**:
   - **Illinois**: ***50,000***
   - **Everywhere**: ***50,000***

Arkansas

General Information

1. Select **States > Common State > General Information**.
2. Verify the following:

STATE CORPORATION TYPE	***Domestic***
STATE FILING STATUS	***Multi-state corporation-apportionment***
DATE BUSINESS BEGAN IN ARKANSAS	***01/13/2003***

Overpayment and Estimate Options

1. Select **States > Arkansas > Overpayment and Estimate Options**.
2. On the **Overpayment** tab, change the **Overpayment** option to ***Apply entire overpayment to estimate. Credit excess to future years***.
3. On the **Estimated Tax** tab, change the **Estimate** option to ***Suppress compute and print***.

Underpayment Options

1. Select **States > Arkansas > Underpayment Options**.
2. Select ***Suppress computation and printing of Form AR2220***.

California

General Information

1. Select **States > Common State > General Information**.
2. Verify that the **Accounting Method** is selected as ***Same as Common State***.
3. Select **States > California > General Information > General Information**.

4. In the **Scannable Forms Information** section, enter the **California Corporation Number**: ***123-38470***.
5. In the **Additional Information** section, select ***Yes*** for *Was more than 50% of the voting stock of another corporation owned by this corporation*.
6. Verify that the **Ownership schedule** shows the following:

NAME	***Moon Dreams***
ID	***56-2365849***
OWNERSHIP	***70%***

7. Select ***Yes*** for *Is the corporation apportioning income to California using Schedule R*.
8. Verify that the **Corporation headquarters** are outside California and within the United States.
9. Verify that ***Yes*** is answered for *Have all required information returns been filed?*

Overpayment and Estimate Options

1. Select **States > California > Overpayment and Estimate Options**.
2. On the **Overpayment** tab, change the **Overpayment option** to ***Apply entire overpayment to estimate. Credit excess to future years***.

State Adjustments

1. Select **States > California > State Adjustments**.
2. On the **State Adjustments** tab, enter:
   - **Net Income before state adjustments (override)**: ***$159,805,734***
3. On the **Depreciation Adjustments** tab, enter:
   - **Amortization allowable for state purposes**: ***$ 444,444***

Tax Computation

1. Select **States > California > Tax Computation**.
2. Enter **Taxes before credits (override)**: ***$ 354,454***.

California: Schedule R2 Questions

1. Select **States > California > Allocation and Apportionment > Schedule R2**.
2. Enter **Question 1: Retailer Dividends**: ***There are no dividends received for California purposes***.

Underpayment Options

1. Select **States > California > Underpayment Options**.
2. Select the **Exception A option**: ***Large Corporation***.
3. Enter **Prior Years Tax**: ***$ 354,454***.

Illinois

General Information

1. Select **States > Common State > General Information**.
2. Verify the address of the principal place of business: ***Chicago, Illinois***.

Overpayment and Estimate Options

1. Select **States > Illinois > Overpayment and Estimate Options**.
2. On the **Overpayment** tab, change the **Overpayment option** to ***Apply entire overpayment to estimate. Credit excess to future years***.

State Adjustments

1. Select **States > Illinois > State Adjustments > State Adjustments**.
2. Under **Additions**, enter **Illinois income and replacement tax**: ***$ 8,000,000***.

Net Operating Losses

1. Select **States > Illinois > Net Operating Losses > NOL Single Company > 2009**.
2. In the **Detail for Schedule NLD Part I** section, verify the **Loss year ending** ***12 2009***.
3. Verify the following:
4. **Reported Illinois net loss**: ***$ 40,000,000***
   - **Illinois net loss previously carried back or forward**: ***$ 20,000,000***
   - **Base income allocated to IL this year (override)**: ***$133,077,622***
5. In the **Illinois Net Loss Previously Used** section, verify the following:
   - **Loss as of 12 2008 Amount used**: ***$ 4,000,000***
   - **Loss as of 12 2009 Amount used**: ***$ 16,000,000***

Underpayment Options

1. Select **States > Illinois > Underpayment Options**.
2. In the **Options to Compute and Print Underpayment Penalty** section, select ***Suppress computation penalty and do not print form***.

DATA ENTRY AND REVIEW

Using and Reviewing the Tax Application

Print and Default Options

Most options can be set for all returns in your account by your Administrator. You can review and change options on a return-by-return basis.

1. Select **General Information > Return and Print Options**.
2. Click each tab or select the appropriate folder to view the various processing options.

General Information

1. Select **Company Information**.
2. Review the pre-entered data and enter the date of incorporation with forward slashes.

Income and Deductions

1. Select **Income and Deductions > Income**.
2. Verify all income and deduction amounts.

Cost of Goods Sold

1. Select **COGS/COOPS**.
2. Verify the beginning and ending inventory.
3. Verify the additional information for Schedule A on the lower portion of the screen. Tally, Inc. uses the lower of cost or market method of inventory valuation.

Balance Sheet

1. Select **Balance Sheet/M1-M2 > Balance Sheet**.
2. Verify all information.

> Do not enter ending accumulated depreciation and ending unappropriated retained earnings. The system will compute these amounts using the beginning balance adjusted for current year activity based on the options you have selected.

Schedule M-1

The system will automatically compute the net income per books.

REVIEWING THE RETURN

Compute Before Review

1. Before reviewing the return, make sure your return is completely computed.
2. Select **Compute > Full Recompute** from the menu bar.

Review

The complete return can be viewed on screen and any changes made before printing. Use Tax Forms to review the return. During your review, access supporting workpapers by selecting any field with blue arrows to the right of the field, and then check for diagnostics and overrides.

The review process consists of:

- Reviewing diagnostics and overrides
- Reviewing through Tax Forms
- Reviewing work papers
- Entering corrections and changes
- Reviewing through Print Preview.

Print Preview

1. Access Print Preview to see the return as it will print.
2. View all statements by selecting **Print** on the menu bar.

Diagnostics and Overrides

DIAGNOSTICS

1. To review the diagnostics, select **View > Diagnostics**.
2. A screen displays a list of the diagnostics by type: *Severe*, *Informational*, or *E-file*.
3. To go to the screen where the diagnostic originates, select a diagnostic from the list.

OVERRIDES

1. Viewing and accessing overrides works like the review of diagnostics explained above. Select the override to go to the screen where you entered the override.
2. Verify your overrides and clear any unnecessary overrides by clicking the overridden amount and selecting **Clear Override** from the right-click menu.

If you have entered data only through the Organizer screens, no overrides should exist.

Comparison Screens

Once you have completed this case study, you can compare your entries with the master return completed using the same data. To compare the return you prepared to the master, select **Help > Case Study Comparisons** inside the return.

Differences between the amount in your return and the amount in the master return are noted in the **Difference** column. If you entered the data correctly, there should be no amounts in the **Difference** column.

If you have differences, begin by selecting **Compute > Full Recompute**.