

# 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

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# 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:

|                                                          |                       |
|----------------------------------------------------------|-----------------------|
| <b>METHOD OF ACCOUNTING<br/>(RETURN INFORMATION TAB)</b> | <b>Accrual</b>        |
| <b>PRINCIPAL BUSINESS CODE</b>                           | <b>451110</b>         |
| <b>PRINCIPAL BUSINESS ACTIVITY</b>                       | <b>Retailer</b>       |
| <b>PRODUCT OR SERVICE</b>                                | <b>Sporting Goods</b> |

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                     | <b><i>56-2365894</i></b>    |
| PERCENTAGE OWNED        | <b><i>70.00</i></b>         |
| COUNTRY OF ORGANIZATION | <b><i>United States</i></b> |

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             | <i>Moon Dreams, Inc.</i> |
| EIN              | <i>56-2365894</i>        |
| PERCENTAGE OWNED | <i>70%</i>               |

## 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                                      | <b>\$ 5,905,000</b>   |
| PURCHASES                                                | <b>\$ 858,145,000</b> |
| COGS - DEPRECIATION                                      | <b>\$ 3,718,900</b>   |
| OTHER COSTS - (MISCELLANEOUS<br>OTHER COST OF GOODS SOLD | <b>\$ 144,376,500</b> |
| ENDING INVENTORY                                         | <b>\$ 8,150,000</b>   |

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

## 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:

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| <b>BASIS</b>                     | <b>9,000,000</b> | <b>3,000,000</b> |
| <b>RECOVERY PERIOD</b>           | <b>5.0</b>       | <b>7.0</b>       |
| <b>CONVENTION</b>                | <b>HY</b>        | <b>HY</b>        |
| <b>METHOD</b>                    | <b>200DB</b>     | <b>200DB</b>     |
| <b>CURRENT YEAR DEPRECIATION</b> | <b>1,800,000</b> | <b>428,700</b>   |

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           |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>TAX31-620</b> | <b>Capital Gain Net Income (Schedule D)</b><br><b>(Subtracts 10,000 on Part II,</b><br><b>line 23a, column (c))</b>                              | <b>\$ 10,000</b> |                  |
| <b>605</b>       | <b>Worthless Stock (Enters -5,000 on</b><br><b>Part II, line 23f, column (c))</b>                                                                | <b>\$ 5,000</b>  |                  |
| <b>606</b>       | <b>Gross Capital Gains from Schedule D,</b><br><b>excluding flow-through entities</b><br><b>(Enters 15,000 on Part II, line 23b, column (c))</b> |                  | <b>\$ 15,000</b> |

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** tab.
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              |
|----------------------------------------------------------|---------------------|---------------------|
| <i>Cash</i>                                              | <i>\$32,620,000</i> | <i>\$ 9,000,000</i> |
| ENTER DESCRIPTION OF CASH                                |                     |                     |
| <i>Accounts Receivable</i>                               | <i>15,000,000</i>   | <i>23,000,000</i>   |
| ENTER DESCRIPTION OF TRADE NOTES AND ACCOUNTS RECEIVABLE |                     |                     |
| <i>Allowance for Doubtful Accounts</i>                   | <i>2,000,000</i>    | <i>3,000,000</i>    |

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

| ASSETS                            | BEGINNING           | ENDING              |
|-----------------------------------|---------------------|---------------------|
| <i>Inventories</i>                | <i>\$ 7,000,000</i> | <i>\$ 9,000,000</i> |
| <i>Less: Obsolescence Reserve</i> | <i>1,345,000</i>    | <i>1,200,000</i>    |

3. Verify the following:

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

## *LIABILITIES AND STOCKHOLDER'S EQUITY*

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



2. Enter the following:

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

| LIABILITIES              | BEGINNING        | ENDING           |
|--------------------------|------------------|------------------|
| <i>Warranty Reserves</i> | <i>2,000,000</i> | <i>2,500,000</i> |

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

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

- Verify that the following check box is selected: **Automatically compute ending unappropriated retained earnings**.
- 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

- Select **Balance Sheet/M1-M2-M3 > Schedule M1/M2 > Reconciliation (M-1)** tab.
- 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<br>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 |
|------------------|-------------------|---------------------------|
| <i>Class III</i> | <i>24,000,000</i> | <i>24,000,000</i>         |
| <i>Class IV</i>  | <i>20,000,000</i> | <i>20,000,000</i>         |

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

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

|                |                                             |
|----------------|---------------------------------------------|
| <b>NAME</b>    | <i>Sun-GmbH</i>                             |
| <b>ADDRESS</b> | <i>22 Millstrasse<br/>Fruehauf, Germany</i> |

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                            | <b>Sun-GmbH</b>                             |
| ADDRESS                         | <b>22 Millstrasse<br/>Fruehauf, Germany</b> |
| PRINCIPAL BUSINESS              | <b>Stationery</b>                           |
| BUSINESS LOCATION AND RESIDENCE | <b>Germany</b>                              |

## 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                                | <i>Delaware</i>                                             |
| STATE OF COMMERCIAL DOMICILE                          | <i>Illinois</i>                                             |
| LOCATION OF ACCOUNTING RECORDS AND PRINCIPAL BUSINESS | <i>Tally, Inc.<br/>600 Bay Street<br/>Chicago, IL 60699</i> |

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        |
|-------------------|------------------|------------------|------------------|------------------|
| <i>Arkansas</i>   | <i>1,250</i>     | <i>1,250</i>     | <i>1,250</i>     | <i>1,250</i>     |
| <i>California</i> | <i>50,000</i>    | <i>100,000</i>   | <i>100,000</i>   | <i>100,000</i>   |
| <i>Illinois</i>   | <i>2,500,000</i> | <i>2,500,000</i> | <i>2,000,000</i> | <i>2,000,000</i> |



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     |
|-------------------------------------------|------------|------------|
| <b>INVENTORY</b>                          |            |            |
| 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  |
| <b>LAND</b>                               |            |            |
| ILLINOIS                                  | 1,000,000  | 3,000,000  |
| EVERYWHERE                                | 1,000,000  | 3,000,000  |
| <b>BUILDINGS</b>                          |            |            |
| 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 |
| <b>BUILDINGS ACCUMULATED DEPRECIATION</b> |            |            |

| 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<br>TO WITHIN STATE | SALES WITHOUT STATE<br>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          | <i>Domestic</i>                              |
| STATE FILING STATUS             | <i>Multi-state corporation-apportionment</i> |
| DATE BUSINESS BEGAN IN ARKANSAS | <i>01/13/2003</i>                            |

## 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      | <b>Moon Dreams</b> |
| ID        | <b>56-2365849</b>  |
| OWNERSHIP | <b>70%</b>         |

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**.



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