

1120 SBC, INC. CASE STUDY FACTS (CASSBM)

SBC, Inc. is an S corporation engaged in the distribution of machinery, equipment and supplies. You will provide many input items by using the Trial Balance Bridge and Shareholder import. Guidance is given for other entries for you to complete.

TARGETED AREAS

- Reviewing Bridge Defaults
- Foreign Taxes
- Bridging the Client Trial Balance
- Officers' Compensation
- Importing the Shareholder Template
- Stock Transfer
- Adjusting journal entries
- Schedule K entries
- Depreciation
- State Allocation/Appportionment - Indiana and Iowa

USING TRIAL BALANCE BRIDGE

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USING TRIAL BALANCE BRIDGE

ACCESSING THE BRIDGE SOFTWARE

From within the return, select **Access > Trial Balance**.



Trial Balance Bridge is required to complete this case study. If you do not have Trial Balance Bridge installed, you will not be able to access the files referenced in this training exercise.

The file **SBCshare.dif** file is located in the **C:\ProgramFiles(x86)\RIA\RS2019** directory.

REVIEWING THE BRIDGE DEFAULTS

From within the tax return:

1. Select the **Access** menu, then select **Trial Balance Bridge**.
2. Select the **Options** menu, then select **Merge Defaults** (while in Bridge).
3. Check the option: **Suppress Merge of Accounts without Balances**.
4. Under separate tabs in **Merge Defaults**, the following boxes should be checked:

PAGE 1	<i>Merge Page 1: Income and Deductions</i>
SCH. A	<i>Merge Schedule A: Cost of Goods Sold</i>
SCH. K	<i>Merge Schedule K: Shareholders Share of Income, Credits, Deductions</i>
SCH. L	<i>Merge Schedule L: Balance Sheet</i>
SCH. M-1	<i>Merge Schedule M-1: Rec. of Income(Loss)</i>
SCH. M-2	<i>Merge Schedule M-2: Analysis of Shareholders' Accounts</i>

5. Click **OK**.

Importing the Trial Balance and Tax Combination Code Descriptions

Import the precoded trial balance file **Sbctb.dif** into the Bridge to create the bridge file for the SBC Corporation.

4 **Using Trial Balance Bridge**
 Reviewing the Bridge Defaults

Import the Tax Combination Code Description file **Sbctcc.dif** into the Bridge to create the detailed descriptions that appear on the tax return.

1. Select **File > Import**.
2. Select **User Defined**, and click the **New** button.
3. For the **Source File Import Type**, select ***Trial Balance***.
4. Enter the template name and description. The template will not be saved unless you enter a template name and description.
5. For the **Source File Format**, select **DIF**.
6. For the **Source File** Information, browse to where: **?:\SBCtb.dif** is saved. Select the file, and click **Open**, then **OK**. Now the file should be displayed on your screen:
7. Click the Import Item **Account Number**, then click **Column A**.
8. Click the Import Item: **Account Description**, then click **Column B**.
9. Click the Import Item: **Prior Year Balance**, then click **Column F**.
10. Click the Import Item: **Current Year Balance**, then click Column G.
11. Click the Import Item: **Tax Return Code**, then click **Column C**.
12. Click the Import Item: **Tax Combination Code**, then click **Column D**.
13. Click the Import Item: **Property Code**, then click **Column E**.
14. In the field **Import Starting on Line**, enter the number **2**.
15. Click **Import Now**.
16. Click **Yes** to save the Import Template.
17. Click **Import**, then **OK**.
18. Click **No**, then **Done**, and **Done** again.
19. Repeat the steps above for Tax Combination codes except:
 - **Source File Import Type**: Select ***TCC Descriptions***
 - **Source File Information** **?:\SBCtcc.dif**

- 20. Click **Done**. The Bridge file will validate the data.
- 21. Once both files are imported, select **Options > Calculate Now**.
- 22. Select **View > Tax Summary**.

ADJUSTING JOURNAL ENTRIES

At this point, enter any journal entries (e.g., book adjustments, tax reclassifications, Schedule M-1, or Schedule M-2 adjustments.) into the bridge.

- 1. Access the journal entry screens by selecting **Ledger > Journal Entries**.
- 2. Select the type of journal entry to enter. Journal entries are needed for Tax Reclassifications and M-1 Adjustments.



Journal entry descriptions are entered automatically. These entries may not match the description examples used below. Enter the Tax Reclassification entry below.

G/L ACCT.#	DESCRIPTION	DEBIT	CREDIT
<i>TAX41-210</i>	<i>Officers' Compensation</i>	<i>1,775,000</i>	
<i>1120</i>	<i>Salaries</i>		<i>1,775,000</i>

- 3. Select Schedule M-1 Adjustments as the type of entry you wish to enter, and then click **New**. Click **Done**

after each journal entry.

4. Enter the following M-1 adjusting entries:

G/L ACCT.#	DESCRIPTION	DEBIT	CREDIT
<i>TAX60-216</i>	<i>Travel & Entertainment</i>	<i>73,000</i>	
<i>1924</i>	<i>Meals & Entertainment</i>		<i>73,000</i>
<i>TAX60-240</i>	<i>Other Book Expenses</i>	<i>20,000</i>	
<i>1908</i>	<i>Outside Services</i>		<i>20,000</i>
<i>456</i>	<i>Tax-Exempt Interest Income</i>	<i>15,000</i>	
<i>TAX60-410</i>	<i>Tax-Exempt Interest</i>		<i>15,000</i>
<i>TAX60-223</i>	<i>Bad Debts</i>	<i>150,000</i>	
<i>1160</i>	<i>Bad Debts</i>		<i>150,000</i>
<i>1760</i>	<i>Employee Benefit Programs</i>	<i>1,800,000</i>	
<i>TAX60-240</i>	<i>Other Book Expenses</i>		<i>1,800,000</i>
<i>TAX60-240.001</i>	<i>Bonuses Payable-Shrholders</i>	<i>2,500,000</i>	
<i>TAX60-240.002</i>	<i>Wages Payable-Shareholders</i>	<i>100,000</i>	
<i>TAX60-240.003</i>	<i>Bonuses</i>	<i>1,000,000</i>	

G/L ACCT.#	DESCRIPTION	DEBIT	CREDIT
1120	<i>Salaries</i>		3,600,000
TAX40-110	<i>COGS: Beginning Inventory</i>	250,000	
TAX60-540.001	<i>263A Adj. Beg. of Yr.</i>		250,000
TAX60-240.004	<i>263A Adj. End of Yr.</i>	350,000	
TAX40-190	<i>COGS: Ending Inventory</i>		350,000
1500	<i>Depreciation</i>	255,299	
TAX60-510	<i>Depreciation</i>		255,299
522	<i>Depreciation</i>	1,370,267	
TAX60-510	<i>Depreciation</i>		1,370,267

5. Enter the following M-2 adjusting entry:

G/L ACCT.#	DESCRIPTION	DEBIT	CREDIT
TAX62-320	<i>Distributions, non Div.</i>	6,235,800	
M2_BAL	<i>(Automatic)</i>		6,235,800

REVIEWING BEFORE MERGING

1. After the journal entries have been entered, verify that the Bridge is in Balance (**Options > Calculate Now**, then **View > Tax Summary**).

Page 1 and Schedule M-3 are out of balance. This condition is to be ignored in this case study.

2. Merge the bridge data into the Tax Application (**Options > Merge Now**). Click **Yes** if the program asks if you want to continue.
3. Print and review the Bridge Workpaper by selecting **File > Print**. You can select **File > Print Preview** to review the workpapers when a hard copy is not needed.
4. Exit the Bridge.

IMPORTING FROM THE SHAREHOLDER TEMPLATE

Once in the locator:

1. Select **File > Import > Shareholder Information**. The shareholder dialog box appears.
2. Click **Browse**, and open the DIF file which is to be imported. Alternatively, the path and import file name may be typed into the **Shareholder Import** dialog box. The file path and export file name should now appear in the box below the **DIF File** caption. The file **SBCShare.dif** is located in the **C:\ProgramFiles (x86)\RIA\RS2019** directory.
3. To verify that the correct DIF file is selected, click the **View** button to view the spreadsheet before importing it.
4. Click the **Import** button and the specified template will be imported into the 1120 Tax Application. After the import is complete, the same dialog box from step 3 is displayed.
5. After the process is complete, click **Done** to close the dialog box. The process of importing the Shareholder Template is now complete. The spreadsheet information is imported directly into the Organizer screens in the **Shareholder Data** folder.

6. Perform a full recompute of the 1120 S locator and review **Shareholder Information > Shareholder Data > Shareholder Information** for accuracy and completeness of data transfer into the Organizer. Select **Quick Track > Shareholder Information**.

OR

Select **Shareholder Information > Shareholder Data > Shareholder Information**. Click the name of the shareholder to be viewed. Select each shareholder to check that the information imported properly.

NAME	SSN	ADDRESS	BEGINNING NUMBER OF SHARES
<i>Kathleen Jackson</i>	<i>666-44-1115</i>	<i>1110 Old Gulph Road Downers Grove, IL 62356</i>	<i>100</i>
<i>Jennifer Sweet</i>	<i>209-36-4574</i>	<i>46 Clwyd Road Chicago, IL 60699</i>	<i>100</i>
<i>Jonathan Sweet</i>	<i>177-34-5857</i>	<i>46 Clwyd Road Chicago, IL 60699</i>	<i>100</i>
<i>Forest Mayer</i>	<i>199-36-5861</i>	<i>247 E. Gravers Lane Winnetka, IL 60425</i>	<i>100</i>
<i>John Lloyd</i>	<i>200-36-6592</i>	<i>314 S. Philip Street Carol Stream, IL 65235</i>	<i>100</i>
<i>Mark Lloyd</i>	<i>209-24-3160</i>	<i>431 Spruce St. Chicago, IL 60684</i>	<i>500</i>

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	<i>SBC, Inc.</i>
ADDRESS	<i>482 Wilson Street Metro City, IL 43705</i>
EIN	<i>12-3456789</i>
DATE OF ELECTION AS AN S CORPORATION	<i>12/01/1997</i>
DATE OF NCORPORATION	<i>12/01/1996</i>
BUSINESS CODE	<i>333333</i>
BUSINESS ACTIVITY	<i>Training</i>
PRODUCT OR SERVICE	<i>Widgets</i>

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

4. Enter the missing information from below:

NUMBER OF SHAREHOLDERS	<i>6</i>
METHOD OF ACCOUNTING	<i>Accrual</i>

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, 2019**, 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 **01/01/2019** and **10/31/2019** for **Period 1 dates**.
3. Enter **11/01/2019** and **12/31/2019** 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	<i>209-24-3160</i>	<i>200-36-6592</i>	<i>566-44-1115</i>
ADDRESS	<i>4569 Webster St. Chicago, IL 60614</i>	<i>8909 Irving Park Road Chicago, IL 60649</i>	<i>1562 Downing Downers Grove, IL 65489</i>
% OF TIME DEVOTED TO BUSINESS	<i>100%</i>	<i>100%</i>	<i>100%</i>
PERCENT OF STOCK OWNERSHIP	<i>Common 50%</i>	<i>Common 20%</i>	<i>Common 20%</i>
DIRECTOR?	<i>Yes</i>	<i>No</i>	<i>No</i>
TITLE	<i>President</i>	<i>Vice President</i>	<i>Chief Financial Officer</i>
SALARY	<i>\$775,000</i>	<i>\$400,000</i>	<i>\$600,000</i>

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.
<i>7 year</i>	<i>933,051</i>	<i>7.00</i>	<i>HY</i>	<i>200DB</i>	<i>133,333</i>

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.
<i>5 year</i>	<i>9,000,000</i>	<i>5.00</i>	<i>HY</i>	<i>200DB</i>	<i>1,800,000</i>
<i>7 year</i>	<i>2,066,949</i>	<i>7.00</i>	<i>HY</i>	<i>200DB</i>	<i>295,367</i>

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

DATE IN SERVICE	BASIS	CURRENT YR. DEPRECIATION
<i>09/01/2019</i>	<i>10,000,000</i>	<i>74,900</i>

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	01/01/2007
DATE SOLD	08/01/2019
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				
<i>Inventories</i>	6,850,000	7,700,000		
<i>Land</i>	1,000,000	1,000,000		2,000,000
<i>Buildings</i>	34,000,000	34,000,000		10,000,000
<i>Bldgs. Accum. Depr.</i>	9,120,000	10,480,000		133,333
<i>Mach. & Equip.</i>	35,000,000	33,000,000		9,000,000
<i>Mach. Accum. Depr.</i>	35,000,000	33,000,000		600,000
<i>Furniture & Fixtures</i>	6,000,000	6,000,000		3,000,000
<i>Furn.&Fix Accum. Dep.</i>	6,000,000	6,000,000		200,000
<i>Rental-Tang. Per.</i>		433,000		
PAYROLL DATA ENTRY				
<i>Other Salaries/Wages</i>		19,155,000		1,000,000
SALES DATA ENTRY				
<i>Within to Within State</i>		86,000,000		

	INDIANA		IOWA	
	BEGINNING	ENDING	BEGINNING	ENDING
<i>Within to Non-tax Juris.</i>		48,000,000		
<i>Rents</i>				2,000,000
<i>Other Interest</i>		80,000		
<i>Real & Tang. Property</i>		50,000		
<i>Other Receipts</i>		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**.

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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