

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

- Bridging the Client Trial Balance
- Bridging Tax Combination Codes
- Journal Entries in Bridge
- Reviewing Bridge Defaults
- 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 TRIAL BALANCE BRIDGE

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USING TRIAL BALANCE BRIDGE

The general ledger data for Tally, Inc. has been exported from the company's general ledger software. Tax Return Codes (TRCs) have been assigned to each account number in the company's Trial Balance, and M-3 Tax Return Codes (MRCs) have been assigned to all income and expense accounts in the Trial Balance. The data was then saved as a DIF file (**TallyTB.dif**). In addition, a Tax Combination Code DIF File (**TallyTCC.dif**) has been created for you to use with the Bridge Application. Your task is to complete the return using Bridge. You will import the data from the DIF files, verify defaults, enter journal entries in Bridge, and merge the data into the 1120 tax application.

Once the data is merged, you will use the tax application to add additional items to the tax return. The Allocation and Apportionment DIF file (**TallyAA.dif**) and a template file (**TallyA&A.kat**) will be used to import state information to help you complete the training return.

Use the Data Entry section for instructions and hints when you are not sure where or how to enter the tax data. You should verify all the information and enter or update information as needed.

GENERAL INFORMATION

Before you use Bridge, verify the Company Information.

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

NAME	<i>Tally, Inc.</i>
ADDRESS	<i>600 Bay Street Chicago, Illinois 60699</i>
EIN	<i>11-11111111</i>

3. Enter the **Date of Incorporation**: *1/24/1973*.
4. Verify the **Return Type**: *1120 US Corporation*.
5. Verify the **Entity Type**: *Corporate Single Entity*.



You should ensure your return type is set correctly before using Bridge. The return type determines what options are available in the Bridge Application.

ACCESSING BRIDGE

Electronic files for trial balance data, tax combination codes, and allocation and apportionment are located in the **C:\Program Files(x86)\RIA\RS2019** directory.

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

Once you have created a new case study return for the Tally, Inc., begin by opening the tax return and accessing Bridge.

Select **Access > Trial Balance** from the menu.

BRIDGE DEFAULTS

1. From the **Options** menu, verify that all automatic journal entries, with the exception of **Federal Income Tax Provision**, are checked. If **Federal Income Tax Provision** is checked, uncheck the box.



This case study has Schedule M-3. It is not recommended that the automatic journal entry for Federal Income Tax be activated if an M-3 is to be prepared.

2. Select **Options > Merge Defaults**.
3. Verify that the **Merge Defaults** have checked boxes for all tabs:

PAGE 1	<i>Merge Page 1: Income and Deductions</i>
SCH. A	<i>Merge Schedule A: Cost of Goods Sold</i>
SCH. C	<i>Merge Schedule C: Dividends and Special 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 Unappropriated Retained Earnings</i>
SCH. M-3	<i>Merge Schedule M-3: Reconciliation of Income Statement with Return</i>

IMPORTING DATA INTO BRIDGE

Build a template for the DIF Files using the information below and import the trial balance information and the tax combination code descriptions.

Importing Trial Balance Information

The columns of **TallyTB.DIF** are arranged as follows:

1. Start importing on row 2:

COLUMN	NUMBER
A	<i>General ledger account description</i>
B	<i>General ledger account number</i>
C	<i>Prior year adjusted balance</i>
D	<i>Current year book balance</i>
E	<i>Tax combination code</i>
F	<i>Tax return code</i>
G	<i>M-3 Tax Return Code</i>
H	<i>M-3 Tax Combination Code</i>

2. Once you have tagged all the columns with the correct headings, Bridge will automatically sort the items by account number. To have the items appear in Tax Return Code order, go to **Edit > Sort Trial Balance**, then click **Tax Return Code**.

Importing the Tax Combination Code Descriptions

The columns of **TallyTCC.DIF** are arranged as follows:

1. Start importing on row 2:

COLUMN	NUMBER
A	<i>Tax return code</i>
B	<i>Tax combination code</i>
C	<i>Tax combination code description</i>

2. After importing, from the **Options** menu, verify that the **Return default** is set to **Close to Acct #2960**.

Tax Reclassification Entries

1. Select **Ledger > Journal Entries** from the menu.
2. Click the **Tax reclassification** radio button.
3. Click **New**.

4. Enter a description for each journal entry.
5. Add the following journal entries to reclassify tax items:

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
JOURNAL ENTRY #1 RECLASSIFY OFFICERS SALARIES			
<i>TAX41-210</i>	<i>Officers Compensation</i>	<i>\$ 1,775,000</i>	
<i>1120</i>	<i>Salaries and Wages</i>		<i>\$ 1,775,000</i>
JOURNAL ENTRY #2 RECLASSIFY CAPITAL GAIN INCOME			
<i>750</i>	<i>Miscellaneous Income</i>	<i>\$ 10,000</i>	
<i>TAX31-620</i>	<i>Capital Gain Net Income (Schedule D)</i>		<i>\$ 10,000</i>
JOURNAL ENTRY #3 RECLASSIFY MEALS AND ENTERTAINMENT			
<i>1818</i>	<i>Employee Relations</i>	<i>\$ 2,000</i>	
<i>1924</i>	<i>Meals and Entertainment</i>		<i>\$ 2,000</i>
JOURNAL ENTRY #4 RECLASSIFY FEDERAL INCOME TAX - CURRENT AND DEFERRED			
<i>1285</i>	<i>Federal Income Tax Provision - Deferred</i>	<i>\$30,000,000</i>	
<i>1280</i>	<i>Federal Income Tax Provision - Current</i>		<i>\$30,000,000</i>
JOURNAL ENTRY #5 RECLASSIFY INCOME FROM PARTNERSHIP OUT OF GAINS ACCOUNT			
<i>600</i>	<i>Net Income or (Loss) on Sales Including FA</i>	<i>\$ 15,000</i>	
<i>608</i>	<i>Income/Loss from US Partnerships</i>		<i>\$ 15,000</i>



You can reclassify balances between accounts for tax return presentation. Reclassification cannot be made from the balance sheet to the income statement, but only between items on the balance sheet or between items on the income statement.

Assigning MRC Codes

Journal entries #1 and #2 of the Tax Reclassification Entries are using the TAXnn-*nnn* feature of the software, allowing the creation of account numbers that are not part of the general ledger. With the TAXnn-*nnn* feature, the account number and the TRC code are assigned and will appear on the bridge grid. The MRC codes for these accounts have not been assigned. You will need to assign the MRC codes now.

1. Make sure the **Grid Display Options** in **View** have been set to include the display of *MRC*, *MCC*, *Adjusted Book Balance*, *Tax Reclass Adjustments*, *M1/M3 Adjustments*, *Journal Entry Type*, and *Final Tax Balance*.
2. Find the line for the account number *TAX41-210* on the grid.
3. Tab across the grid to the MRC code column for this line. Enter **I420**.
4. Go back to the **Account Number** column and find account number *TAX31-620* on the grid.
5. Tab across the grid to the MRC code column for this line. Enter **I320**.
6. In addition to the entries shown here, the system will post a reclassification. These are called automatic entries and will begin the account number with *AUTO*. This entry is automatically made because the **Automatic Journal Entry** under the **Options** menu has the **Cost of Goods Sold (COGS)** check box selected.

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
<i>AUTO40-110</i>	<i>COGS: Beginning Inventory</i>	\$ 5,655,000	
<i>AUTO40-120</i>	<i>COGS: Purchases</i>	\$ 2,145,000	
<i>AUTO40-190</i>	<i>COGS: Ending Inventory</i>		\$ 7,800,000

M-2 Adjustments

Your M-2 is out-of-balance. To balance it, you need to make an adjusting entry for Cash Distributions.

1. Select the **Schedule M-2** radio button.
2. Enter the following:

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
JOURNAL ENTRY #1 - RECORD CASH DISTRIBUTION			
<i>TAX62-308</i>	<i>Distributions: Cash</i>	<i>\$91,605,800</i>	
THE OTHER HALF OF THE ENTRY WILL BE MADE FOR YOU			
<i>M2_BAL M2</i>	<i>Balancing Account</i>		<i>\$91,605,800</i>

3. Click **Done** and **Done** again.
4. Calculate the information. Now verify the information is in balance. Press **F9** to calculate all of the information you have imported and entered.
5. Once the compute is complete, select **View > Tax Summary** from the menu. You should have no differences.
6. Verify that the data is in balance.
7. Close the **Tax Summary**.

M-1/M-3 Adjustments

You need to make journal entries for any book to tax differences you have for the return.

1. Select **Ledger > Journal Entries** from the menu.
2. Click **M1/M3 Adjustments**.
3. Click **New**.
4. Add the following journal entries to record book/tax differences. When making the entries, you must also indicate whether the item is a temporary or permanent difference. The default in the bridge is temporary.



The .004, etc., adds a TCC (Tax Combination Code) description. Otherwise, your entry would just show Other Expenses Not Deducted on return. If you want detail, you must use TCCs for M-1 descriptions.

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
JOURNAL ENTRY #1: RECORD BOOK TO TAX DEPRECIATION (TEMPORARY)			
922	<i>Depreciation</i>	\$ 1,625,566	
TAX60-510	<i>Depreciation difference</i>		\$ 1,625,566
JOURNAL ENTRY #2: RECORD BEGINNING INVENTORY ADJUSTMENT (TEMPORARY)			
TAX40-110	<i>COGS: Beg Inventory</i>	\$ 250,000	
TAX60-540.004	<i>COGS: Sec 263A Beginning</i>		\$ 250,000
JOURNAL ENTRY #3: RECORD INVENTORY ADJUSTMENT (TEMPORARY)			
TAX60-240.001	<i>COGS: Sec 263A Ending</i>	\$ 350,000	
TAX40-190	<i>COGS: End Inventory</i>		\$ 350,000
JOURNAL ENTRY #4: RECORD COST OF GOODS SOLD EXPENSES (PERMANENT)			
1924	<i>Meals and Entertainment</i>	\$ 1,500	
927	<i>Meals & Entertainment (CGS)</i>		\$ 1,500
JOURNAL ENTRY #5: RECORD INVENTORY OBSOLESCENCE ADJUSTMENT (PERMANENT)			
TAX40-150	<i>COGS: Other Costs</i>	\$ 145,000	
TAX60-540.001	<i>Inventory Obsolescence</i>		\$ 145,000
JOURNAL ENTRY #6: RECORD PREPAID INS. ADJUSTMENT (TEMPORARY)			
909	<i>Insurance - General</i>	\$ 365,000	

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
<i>TAX60-540.002</i>	<i>Prepaid Insurance</i>		<i>\$ 365,000</i>
JOURNAL ENTRY #7: RECORD ADJUSTMENT TO WARRANTY RESERVES (TEMPORARY)			
<i>TAX60-240.002</i>	<i>Warranty Reserve</i>	<i>\$ 500,000</i>	
<i>911</i>	<i>Warranty</i>		<i>\$ 500,000</i>
JOURNAL ENTRY #8: RECORD DUES ADJUSTMENT (PERMANENT)			
<i>TAX60-240.003</i>	<i>Club Dues</i>	<i>\$ 20,000</i>	
<i>1816</i>	<i>Due and Periodicals</i>		<i>\$ 20,000</i>
JOURNAL ENTRY #9: RECORD FOREIGN TAXES ADJUSTMENT (PERMANENT)			
<i>TAX60-240.004</i>	<i>Foreign Taxes</i>	<i>\$ 80,000</i>	
<i>1281</i>	<i>Foreign Income Taxes</i>		<i>\$ 80,000</i>
JOURNAL ENTRY #10: RECORD ADJUSTMENT FOR BAD DEBT RESERVE (TEMPORARY)			
<i>TAX60-240.005</i>	<i>Bad Debt Reserve (Non-475)</i>	<i>\$ 1,000,000</i>	
<i>1160</i>	<i>Bad Debts</i>		<i>\$ 1,000,000</i>
JOURNAL ENTRY #11: RECORD ADJUSTMENT TO BENEFITS (TEMPORARY)			
<i>TAX60-240.006</i>	<i>Post Retirement</i>	<i>\$ 4,800,000</i>	
<i>1760</i>	<i>Employee Benefit Program</i>		<i>\$ 4,800,000</i>
JOURNAL ENTRY #12: RECORD ACCRUAL ADJUSTMENT (TEMPORARY)			

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
1760	<i>Employee Benefit Programs</i>	\$ 1,800,000	
TAX60-540.005	<i>Worker's Comp</i>		\$ 1,800,000
JOURNAL ENTRY #13: RECORD BONUS ADJUSTMENT (TEMPORARY)			
1120	<i>Salaries</i>	\$ 400,000	
TAX60-540.006	<i>Bonuses</i>		\$ 400,000
JOURNAL ENTRY #14: RECORD FOREIGN EXCHANGE DIFFERENCE (PERMANENT)			
709	<i>Unrealized Foreign Currency</i>	\$ 40,000	
TAX60-450.001	<i>Unrealized foreign exchange gain</i>		\$ 40,000
JOURNAL ENTRY #15: M-1/M-3 FOR FEDERAL INCOME TAX (PERMANENT)			
TAX60-110	<i>Federal Income Tax</i>	\$56,000,000	
1280	<i>Federal Income Tax Provision - Current</i>		\$26,000,000
1285	<i>Federal Income Tax Provision - Deferred</i>		\$30,000,000
JOURNAL ENTRY #16: RECLASSIFY CAPITAL GAINS FOR M-3 (PERMANENT)			
TAX31-620	<i>Capital Gain Net Income (Schedule D)</i>	\$ 10,000	
605	<i>Worthless Stock</i>	\$ 5,000	

GL ACCT #	DESCRIPTION	DEBIT	CREDIT
606	<i>Gross Capital Gains from Schedule D, excluding flow-through entities</i>		\$ 15,000
JOURNAL ENTRY #17: RECLASSIFY 4797 INCOME FOR M-3 (PERMANENT)			
600	<i>Net gain or (loss) on sales including FA</i>	\$ 35,000	
607	<i>Net gain/loss reported on Form 4797</i>		\$ 35,000
JOURNAL ENTRY #18: REVERSE PARTNERSHIP BOOK INCOME (PERMANENT)			
608	<i>Income/loss from US partnerships</i>	\$ 15,000	
TAX60-540	<i>Other Tax Deductions Not Recorded on Books</i>		\$ 15,000
JOURNAL ENTRY #19: RECORD PARTNERSHIP K-1 AMOUNTS (PERMANENT)			
608	<i>Income from partnership</i>		\$ 6,000
609	<i>Partnership capital gains/losses</i>		\$ 7,000
TAX60-450	<i>Other Book Income not on the return</i>	\$ 13,000	

Assigning MRC Codes

Once again, you will need to assign MRC codes to TAXnn-*nnn* numbers created by journal entries. Journal Entries #2, #3, and #5 all created accounts not previously on the chart of accounts. Journal Entry #16 also used a TAXnn-*nnn* number 31-620, but you already assigned an MRC code for this account when making the Tax Reclassification entries. You will need to assign the MRC codes to Journal Entries #2, #3, and #5 now.

1. Find the line in the grid for *TAX40-110*.
2. Tab across the grid to the **MRC code** column and enter **E890**.

3. Go back to the **account number** column and find account *TAX40-190*.
4. Tab across the grid to the **MRC code** column and enter *E890*.
5. Go back to the **account number** column and find account *TAX40-150*.
6. Tab across the grid to the **MRC code** column and enter *E890*.

In general, if you are preparing a return and find that the bridge is in balance except for the M-3, you have probably failed to assign some MRC codes to new accounts.

Flow-Through Entity Information

Tally, Inc., has erroneously recorded partnership book income from XYZ Partnership of \$15,000 in account #600, Net Gain or (Loss) Including FA. You have already made Reclass Entry #5 to reclassify this amount as follows:

GL ACCT#	DESCRIPTION	DEBIT	CREDIT
<i>600</i>	<i>Net gain or (loss) on sales including FA</i>	<i>\$ 15,000</i>	
<i>608</i>	<i>Income (loss) from US Partnerships</i>		<i>\$ 15,000</i>

The amount of \$15,000 will now appear on the M-3, Part II, line 9, column (a) as book income from US partnerships. However, the company received a K-1 from XYZ Partnership showing the following:

Ordinary Income: \$ 6,000

Capital Gains: \$ 7,000

Schedule M-3, Part II, line 9 should show the following:

BOOK COLUMN (A)	TEMP DIFF (COLUMN B)	PERM DIFF (COLUMN C)	TAX RETURN COLUMN (D)
<i>15,000</i>		<i>(2,000)</i>	<i>13,000</i>

Column (c) is $15,000 - (6,000 + 7,000) = 2,000$.

A new general ledger account, account #609, was set up to record partnership capital gains. This is because a separate TRC code must be assigned to partnership capital gains so that they will flow to a separate line on the 1120 tax return from the line to which the ordinary income, account #608, will flow. However, they will both receive the same MRC code, 1180, as Schedule M-3 requires that all income from the partnership, whether capital gains or ordinary income, be recorded on Part II, line 9.

You entered Journal Entry #18 to reverse partnership book income in column (c) of line 9 as follows:

GL ACCT#	DESCRIPTION	DEBIT	CREDIT	
608	<i>Income (loss) from US Partnerships</i>	\$ 15,000		(1)
TAX60-450	<i>Other book income not included in return</i>		\$ 15,000	(1)

You entered Journal Entry #19 to record the K-1 amounts as follows:

GL ACCT#	DESCRIPTION	DEBIT	CREDIT	
608	<i>Income from Partnership</i>		\$ 6,000	(1)
609	<i>Partnership capital gain/loss</i>		\$ 7,000	(1)
TAX60-450	<i>Other book income not on the return</i>	\$ 13,000		(2)

Below is the effect of the above entries on the M-3:

	BOOK COLUMN (A)	TEMP DIFF COLUMN (B)	PERM DIFF COLUMN (C)	(REF)	TAX RETURN COLUMN (D)
<i>Part II, line 9</i>	15,000		(15,000)	(1)	
			6,000	(1)	6,000
			7,000	(1)	7,000
	15,000		(2,000)		13,000

Effect of the above entries on M-1:

		REF
<i>TAX60-450</i>	(15,000)	(2)
<i>TAX60-450</i>	13,000	(2)
	(2,000)	

In addition to the entries shown here, the system will post another M-1 adjustment. This entry is automatically made because the **Automatic Journal Entry** under the **Options** menu has been checked for Meals and Entertainment.

GL ACCT#	DESCRIPTION	DEBIT	CREDIT
<i>AUTO60-216</i>	<i>Travel and Entertainment</i>	\$ 74,000	
<i>AUTO41-810</i>	<i>Meals and Entertainment</i>		\$ 74,000

Because this is a return with an M-3, it is not recommended that the automatic journal entry be activated in the bridge for federal income tax. The M-3 requires the Federal Income Tax provision be broken out between current and deferred portions. The existing Federal Income Tax Provision account #1280 was used for the current portion of the provision and renamed, adding the word current to the account description. The account was mapped to the M-3 by assigning the MRC code #E550 to the account. A new account was set up, #1285, for the deferred portion of the provision and assigned MRC code #E560 and TRC code 41-400. Both accounts have the same TRC code 41-400, Federal Income Tax, but they have different MRC codes as they need to be mapped to different lines on the M-3, Part III. Tally, Inc., had recorded the entire Federal Income Tax provision of \$56,000,000 to account #1280. You have already made the required entry to reclassify the provision between current and deferred by making reclass entry #4.

GL ACCT#	DESCRIPTION	DEBIT	CREDIT
1285	<i>Federal Income Tax - Deferred</i>	<i>\$30,000,000</i>	
1280	<i>Federal Income Tax - Current</i>		<i>\$30,000,000</i>

This entry leaves a balance in account #1280 (Current portion) of \$26,000,000 and a balance in account #1285 (Deferred portion) of \$30,000,000. Then you made the M1/M3 entry #15 to record the book/ tax difference of both portions to both the M-1 and M-3 as follows:

GL ACCT#	DESCRIPTION	DEBIT	CREDIT
TAX60-110	<i>Federal Income Tax (Makes the entry to M-1, line 2)</i>	<i>\$56,000,000</i>	
1280	<i>Federal Income Tax Provision - Current (Posts to M-3, Part III, line 1, column (c))</i>		<i>\$26,000,000</i>
1285	<i>Federal Income Tax Provision - Deferred (Posts to M-3, Part III, line 2, column (c))</i>		<i>\$30,000,000</i>

The entry was marked as a permanent difference.

As both accounts are coded to TRC 41-400, the credits to accounts #1280 and #1285 bring the Federal Income Tax account to zero, so that the amounts will not post on page 1 of the Form 1120 as an expense.

As an option, you could make the entries directly in the M-3 organizer screens after merging the bridge with the entire Federal Income Tax Provision in the original single account #1280. But in order for the total amount to populate the M-3, Part III, line 1, you must assign an MRC code to the account on the grid. Then you would break up the bridged amount between current and deferred and override the bridged amount in the M-3 organizer. Then enter the same amounts in column (c) of Part III, lines 1 and 2, as negative amounts. As the automatic journal entry would be turned off, you would also need to enter the Federal Income Tax add back for the M-1, line 2 in the Organizer.

Now calculate the information.

1. Verify that the information is in balance.
2. Press **F9** to calculate all of the information you have imported and entered.
3. Once the compute is complete, select **View > Tax Summary**. You should have no differences.
4. Verify that the data is in balance.
5. Close the Tax Summary.
6. Select **Options > Merge Now**.
7. Exit the Bridge Application.

USING THE TAX APPLICATION

After the last merge, you will enter several descriptions to allow the whitepaper detail to print the same schedules as in the Master return. These descriptions either do not have a TCC number or do not require a TCC number. You will find **Enter** notations directing you to enter each required description.

Recompute the tax return and verify the tax return is in balance.

1. Select **Compute > Full Recompute** from the menu.
2. Verify that the return is in balance. Select **Tax Forms > Federal > 1120 Tax Summary**. There should be no differences.

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)	<i>Accrual</i>
PRINCIPAL BUSINESS CODE	<i>451110</i>
PRINCIPAL BUSINESS ACTIVITY	<i>Retailer</i>
PRODUCT OR SERVICE	<i>Sporting Goods</i>

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

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 2019, 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	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**.

- 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

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

NAME	<i>Joseph Star</i>	<i>John Sanders</i>	<i>Kathryn Smith</i>
ADDRESS	<i>4569 Webster Street Chicago, IL 60614</i>	<i>8909 Park Blvd Chicago, IL 60649</i>	<i>1562 Downing 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 TO BUSINESS	<i>100%</i>	<i>100%</i>	<i>100%</i>
% OF CORP. COMMON STOCK OWNED	<i>20%</i>	<i>20%</i>	<i>20%</i>
AMOUNT OF COMPENSATION	<i>\$ 600,000</i>	<i>\$ 400,000</i>	<i>\$ 775,000</i>

DEDUCTIONS

- Select **Income and Deductions > Deductions > Detail.**
- Verify the following:
 - Compensation of Officers: 1,775,000**
 - Salaries and Wages: 3,900,000**
- 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	09/01/2019
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: **09/01/2019**
- 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 2015.

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 **2015 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 **2015 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	<i>01/01/2014</i>
DATE SOLD	<i>07/01/2019</i>
SALES PRICE	<i>\$ 35,000</i>
COST	<i>\$2,000,000</i>
ACCUM DEPRECIATION	<i>\$2,000,000</i>
AMT ACCUM DEPRECIATION	<i>\$2,000,000</i>
ACE ACCUM. DEPRECIATION	<i>\$1,888,675</i>

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:** *01/15/2019*
 - **Date Sold:** *07/20/2019*
4. Select **Add new Description of Property**.

5. Enter **DEF Stock** and click **OK**.

- **Cost: \$5,000**
- **Sales Price: (Leave blank)**
- **Date Purchased: 02/01/2019**
- **Date Sold: 12/31/2019**

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** 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
2002	600,000	400,000
2003	800,000	150,000
2004	1,800,000	1,250,000
2005	900,000	250,000
2006	-50,500,000	-50,250,000
2007	4,350,000	4,500,000
2008	23,601,211	24,195,350

PAYMENTS OF TAX

1. Select **Quick Track > Tax Payments**.
2. Verify 2018 overpayment credited to 2019 of **\$50,000**.
3. Enter Quarterly Payments:
 - 1st - 04/15/2019: **\$ 125,000**
 - 2nd - 06/15/2019: **\$19,875,000**
 - 3rd - 09/15/2019: **\$20,000,000**
 - 4th - 12/15/2019: **\$10,000,000**
4. The corporation also made a payment on **03/14/2020** 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 2020 estimated tax, verify that **Option 1** is selected: **Estimate based on Current year tax liability**.
3. For the application of the 2019 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 2020 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>	\$ 5,655,000	\$ 7,800,000
<i>Prepaid Insurance</i>	475,000	1,130,000
<i>Investment in Subsidiary</i>	18,000,000	18,000,000
<i>Depreciable Assets</i>	75,000,000	95,000,000
<i>Less: Accumulated Depreciation</i>	50,120,000	50,413,333
<i>Land (net of amortization)</i>	1,000,000	3,000,000
<i>Intangible Assets</i>		20,000,000
<i>Less: Accumulated Amortization</i>		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
<i>Accounts Payable</i>	\$ 7,000,000	\$ 9,000,000
ENTER DESCRIPTION OF ACCOUNTS PAYABLE		
<i>Current Notes Payable</i>	1,000,000	1,000,000
ENTER DESCRIPTION OF MORTGAGES, NOTES, BONDS PAYABLE		
<i>Taxes Payable</i>	3,114,000	4,010,223
<i>Bonuses Payable</i>	5,925,000	12,725,000
<i>Commissions Payable</i>	250,000	1,400,000
<i>Interest Payable</i>	50,000	75,000
<i>Utilities and Other Payables</i>	190,000	261,000
<i>Incentive Savings Plan-401K</i>	4,000,000	6,000,000
<i>Prepaid Income</i>	4,000,000	6,000,000
<i>Workers Compensation Accrual</i>	3,600,000	1,800,000
<i>Other Mortgages Notes and Bonds</i>	14,000,000	13,000,000
<i>Post Retirement Payable</i>	15,500,000	20,300,000

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

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

LIABILITIES	BEGINNING	ENDING
<i>Common Stock (10,000 shares common)</i>	<i>1,000</i>	<i>1,000</i>
ENTER DESCRIPTION OF COMMON STOCK		
<i>Paid-in or Capital Surplus</i>	<i>10,000,000</i>	<i>10,000,000</i>
ENTER DESCRIPTION OF PAID-IN CAPITAL		
<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>

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	09/01/2019
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:

NAME	<i>Sun-GmbH</i>
ADDRESS	<i>22 Millstrasse 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	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	<i>Delaware</i>
STATE OF COMMERCIAL DOMICILE	<i>Illinois</i>
LOCATION OF ACCOUNTING RECORDS AND PRINCIPAL BUSINESS	<i>Tally, Inc. 600 Bay Street 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\RS2019** 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\RS2019\TallyAA.dif**
3. Enter the path and **TallyA&A.kat** in the **Template** field (second field):
 - **Template field** example: **C:\Program Files(x86)\RIA\RS2019\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	<i>Domestic</i>
STATE FILING STATUS	<i>Multi-state corporation-apportionment</i>
DATE BUSINESS BEGAN IN ARKANSAS	<i>01/13/2000</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	<i>Moon Dreams</i>
ID	<i>56-2365849</i>
OWNERSHIP	<i>70%</i>

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 > 2004**.
2. In the **Detail for Schedule NLD Part I** section, verify the **Loss year ending 12 2004**.
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 2003 Amount used: \$ 4,000,000**
 - **Loss as of 12 2004 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 BRIDGE

ACCESSING THE BRIDGE SOFTWARE

If you have the tax application installed (1120), from within the return, select **Access > Trial Balance**.

TRANSFERRING THE TRIAL BALANCE DIF FILE INTO THE BRIDGE

The Bridge must be told the kind of source file which contains the trial balance information that you will be using.

1. Select **File > Import**. The **Data Source Selection** dialog appears.
2. Since you will be importing a DIF file and not one of the predefined general ledger or audit packages, under **Data Source** be sure **User Defined** is selected.
3. Click the **New** button. The **User Defined Import Template** dialog appears.



The Trial Balance radio button is already highlighted since that choice is the default.

4. Enter **TRIAL1XX** as the **Template Name** (no spaces are permitted in the template name field; **XX** is your initials).
5. Enter **Tally Trial Balance XX** (**XX** is your initials) as the description.



You may use any name and description that you prefer. However, the names chosen should be meaningful to you so that they can easily be found later for use with other returns, if needed.

6. Under **Source File Format**, **Automatic Detection** should be selected.

7. Enter the drive, path, and filename of your source file.

Or

Click **Browse** and then select the file from the **Open** dialog.

The drive/path field for this exercise's DIF file is the drive/path for the bridge software (for example, **C:\Program Files(x86)\RIA\RS2019 \TallyTB.DIF**).

8. Click **OK**. The **User Defined Import Template** dialog appears.

9. Select the items to be imported under **Import Item**.

10. Highlight **Account Number** by clicking it once.

11. In the **Mark Import Item** area on the lower portion of the screen, highlight the column in the source file that the account numbers are in.

12. The column designator appears in the **Column** field next to the **Import Item**.

13. Repeat this process for **Account Description**, **Tax Return Code**, **Prior Year Balance**, and **Current Year Balance**.

14. Enter the row number of where you want the import to start from. Data on the row you select and all following rows will be imported.

15. Click the **Save** button. The **Import** dialog appears.

16. The new trial balance template that you created, **Tally Trial Balance XX**, appears in the **Description** field.

17. Highlight that template and click the **Import** button.

Or

Select the template name on the list. The **Import Trial Balance** dialog appears.

18. Enter the drive, path, and file name of your source file (for example, **C:\Program Files (x86)\RIA\RS2019\TallyTB.DIF**).

OR

Click **Browse**, then select the file from the **Open** dialog.

19. Under **Import Items**, select the items you want to import. **Account number** and **Account Description** are mandatory items and are preselected. **Tax Return Code**, **Prior Year Balance**, and **Current Year Balance** should also be selected.



For returns that have been completed by the software in prior years, you do not usually bridge prior year balances because they already exist in the tax return file.

20. Click the **Import** button. The **Import Progress** dialog appears along with the **Import Trial Balance** dialog box.
21. When the import process is complete, a confirmation message appears and indicates if errors were found. The message *Import Complete, Errors found* appears. Click **OK**.
22. The **Trial Balance Import** dialog appears again with the message *Do you want to add this File and Format to the Auto Import List*. Click the **No** button.

REVIEWING TRANSFER ERRORS



Any entries that appear in the error list will be excluded from the import into Bridge. You should have no errors!

1. The **Import Trial Balance** dialog appears. Click **Done**.
2. The **Import** dialog appears. Click **Done**.
3. The Trial Balance appears with the imported accounts information.

TRANSFERRING THE TAX COMBINATION CODE DIF FILE INTO THE BRIDGE

The Bridge must be told the kind of source file which contains the tax combination code information.

1. Select **File > Import**. The **Data Source Selection** dialog appears.
2. Since you will be importing a DIF file and not one of the predefined general ledger or audit packages, be sure **User Defined** is selected under **Data Source**.
3. Click **New**. The **User Defined Import Template** dialog appears.
4. Select the **Tax Combination Code** radio button.
5. Enter **TallyTCC** as the **Template Name** (no spaces are permitted in the template name field).

6. Enter **Tally TCC** and your initials as the description. (For this lesson, put your initials in the description.)



You may use any name and description that you prefer. However, the names chosen should be meaningful to you so that they can easily be found later for use with other returns, if needed.

7. Under **Source File Format**, **Automatic Detection** should be selected.
8. Enter the drive, path, and filename of your source file.
9. OR
10. Click **Browse** and then select the file from the **Open** dialog.
11. The drive/path field for this exercise's DIF file is the drive/path for the bridge software (for example, **C:\Program Files(x86)\RIA\RS2019\TallyTCC.DIF**).
12. Click **OK**. The **User Defined Import Template** dialog appears.
13. Select the items to be imported under **Import Item**.
14. Highlight **TCC Description** by clicking it once.
15. In the **Mark Import** Item area on the lower portion of the screen, highlight the column in the source file that the descriptions are entered in.
16. The column designator appears in the **Column** field next to the **Import Item**.
17. Repeat this process for Tax Return Code and TCC Number.
18. Enter the row number of where you want the import to start from. Start in row **3**.
19. Click **Save**. The Import dialog appears.
20. The new tax combination code template that you created, **Tally TCCXX**, appears in the **Description** field.
21. Highlight that template and click the **Import** button.

OR

Select the template name on the list. The **Import Tax Combination Code** dialog appears.

22. Enter the drive, path, and file name of your source file (for example, **C:\Program Files (x86)\RIA\RS2019\TallyTCC.DIF**).

OR

Click **Browse** and then select the file from the **Open** dialog.

23. Under **Import Items**, all items will be preselected for you.
24. Click the **Import** button. The **Import Progress** dialog appears along with the **Trial Balance** dialog box.
25. When the import process is complete, a confirmation message displays and also indicates if errors were found. The message *Import Complete, Errors found* appears. You should not have any errors.
26. The **Tax Combination Code Import** dialog appears. Click **Done**.

CHECKING FOR IN-BALANCE

1. Select **Options > Calculate Now**.
2. The **Calculating Summary Totals** dialog appears.
3. When all calculations are complete, select **View > Tax Summary**.
4. The **Tax Summary** screen identifies out-of-balance returns by showing any differences in Income, Balance Sheet, and Reconciliation of Equity items.



The Schedule M-2 is out of balance. To balance it, make an M-2 journal entry for the Cash Distributions.

5. Close the **Tax Summary** screen.

JOURNAL ENTRIES

1. Select **Ledger > Journal Entries** from the menu bar.
2. To enter the journal entry for Officers' Compensation, select **Tax reclassification** as the type of journal entry.
3. Click **New**.

4. Enter **OFFICERS' COMPENSATION** as the journal entry description.
5. Tab to the **Journal Entry Grid**.
6. Enter **TAX41-210** in the **Account** field. The TRC for Officers' Compensation is 41-210. You can use the word **TAX** followed by the TRC to create an account used only for tax return amounts.

OFFICERS' COMPENSATION

1. Enter **\$ 1,775,000** in the **Debit** column.
2. Enter **1120** in the **Account** column.
3. Enter **\$ 1,775,000** in the **Credit** column on the next line.
4. The **Description** column is completed automatically by the system. Make all the rest of the journal entries shown in the facts.

MERGING THE BRIDGE INFORMATION

You have transferred data from a DIF file into the Bridge, reviewed the error process, posted journal entries and checked to ensure the data is in balance.

1. Select **Options > Merge Now** from the menu bar. This will combine data from the Bridge files with the tax return files.
2. Close the Bridge.

USING AND REVIEWING THE TAX APPLICATION

After the last merge, you will have entered several descriptions to allow the whitepaper detail to print the same schedules as in the Master return. These descriptions either did not have a TCC number or did not require a TCC number.

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.



The numbers to the left of the line description and those labeled as **TRC** are used by the Bridge software.

COST OF GOODS SOLD

1. Select **COGS/COOPS**.
2. Verify the beginning and ending inventory.



These amounts do not carry from the balance sheet.

The column to the left of the description area labeled **TCC**. That column is used for codes when consolidating. You will see similar field arrangements in other 1120 detail screens.

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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