

**Practice Tax Return # 11 Tax Year 2011**

*Before starting this practice return, review the General Instructions.*

**Issues:** This practice situation involves a 2011 corporate tax return (Form 1120).

**Facts:**

*CORPROATE TAX RETURN*

**Corporation General Information:** The corporation’s legal name is Kool Systems, Inc. The corporation’s Employer Identification Number (EIN) is 40-0003011, the address is 2710 MARLEY CT, FLETCHER, NC 28732, the corporation’s phone number is 828-111-2222, the date of incorporation is 02/15/1997, and the state of incorporation is NC.

**Schedule K Other Information:** The corporation uses the accrual accounting method, the principal business activity code # is 238220, the business activity is heating, and air conditioning, and the product or service is construction. There is one shareholder at end of the tax year. The company repairs and installs heating and air conditioning equipment.

**Estimated Tax Payments for 2011:** Quarterly payments of \$6,000 were made and the corporation will apply overpayment to the first 2012 estimated payment. Also, \$5,354 was applied from the 2010 overpayment to 2011 tax liability.

**Officer Information:**

| Officer Information    |   |
|------------------------|---|
| E-mail                 | KKOOL@EMAIL.COM   |
| Name                   | KEN KOOL  |
| Address                | 222 110 ST E, FLETCHER, NC 28732                          |
| Social Security Number | 400-00-2750   |
| Number of shares owned | 1,000 (all outstanding shares)                            |
| Salary                 | \$50,000  |
| Officer/director       | CEO, President, Treasurer, Secretary, and (sole) Director |

**Taxes and Licenses:**

| Taxes and Licenses                            |        |
|---|--------|
| State income tax (if not calculated by Drake) | 850    |
| Local property taxes                          | 150    |
| Payroll taxes                                 | 10,000 |
| Licenses                                      | 2,000  |

**Income and Deductions:**

| Income                  |         |
|-------------------------|---------|
| Gross receipts or sales | 190,000 |
| Returns and allowances  | 9,000   |

| Deductions             |        |
|------------------------|--------|
| Salaries and wages     | 36,000 |
| Repair and maintenance | 5,000  |
| Bad debts              | 3,000  |
| Advertising            | 2,000  |

**Schedule A Cost of Goods Sold:**

| Cost of Sales       |       |
|---------------------|-------|
| Beginning inventory | 6,000 |
| Purchases           | 7,000 |
| Ending inventory    | 8,000 |

**Other Deductions:**

| Other Deductions                   |       |
|------------------------------------|-------|
| Accounting                         | 2,000 |
| Bank charges                       | 200   |
| Cell phones                        | 800   |
| Insurance - building and equipment | 3,000 |
| Insurance - liability              | 2,000 |
| Janitorial                         | 1,500 |
| Legal and professional             | 3,500 |
| Office expense                     | 500   |
| Telephone                          | 1,000 |
| Utilities                          | 7,000 |

**Balance Sheet (screen L) (not including depreciable and amortizable assets):**

| Assets   |           |         |
|--|-----------|---------|
|  | Beginning | Ending  |
| Cash   | 79,202    | 84,888  |
| Accounts receivable  | 60,000    | 90,000  |
| Inventory  | 6,000     | 8,000   |
| Prepaid expenses   | 2,200     | 2,000   |
| Liabilities and Capital                                      |           |         |
| Accounts payable   | 8,500     | 4,000   |
| Common stock (authorizes 10,000 shares; issues 1,000 shares) | 20,000    | 20,000  |
| Retained earnings unappropriated                             | 186,753   | 206,666 |

The 2011 Depreciation Detail Listing is presented on the next pages and no depreciable assets were acquired in 2011. Following the Depreciation Detail Listing are screen shots of the Drake Software input screens.

# Depreciation Detail Listing

FORM 1120

For your records only

**2011**  
PAGE 1

\* Item was disposed of during current year.

Name(s) as shown on return

Social security number/EIN

**KOOL SYSTEMS INC**

**40-0003011**

| No.                         | Description     | Date     | Cost   | Salvage | Business percentage | Section 179 | Depreciation Basis | Life   | Method | Rate   | Current depr. | Accumulated Depreciation | Prior expense | Bonus depreciation | AMT Current |
|-----------------------------|-----------------|----------|--------|---------|---------------------|-------------|--------------------|--------|--------|--------|---------------|--------------------------|---------------|--------------------|-------------|
| 1                           | TRUCK           | 20070713 | 21,500 |         | 100.00              |             | 21,500             | 200 DB | HY     | 11.52  | 1,875         | 14,193                   |               |                    | 1,875       |
| 2                           | COMPUTER        | 20090214 | 5,200  |         | 100.00              |             | 5,200              | 200 DB | HY     | 19.2   | 998           | 3,702                    |               |                    | 928         |
| 3                           | SECURITY SYSTEM | 20070822 | 12,400 |         | 100.00              |             | 12,400             | S/L    | HY     | 14.286 | 1,771         | 8,855                    |               |                    | 1,771       |
| 4                           | FORKLIFT        | 20060922 | 66,000 |         | 100.00              |             | 66,000             | S/L    | HY     | 14.286 | 9,429         | 56,572                   |               |                    | 9,429       |
| 5                           | COMPRESSOR      | 20081122 | 56,000 |         | 100.00              |             | 56,000             | S/L    | MQ     | 14.286 | 8,000         | 32,000                   |               |                    | 8,000       |
| <b>Totals</b>               |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
|                             |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>Land Amount</b>          |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>Net Depreciable Cost</b> |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>22,073</b>               |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>115,322</b>              |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>161,100</b>              |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>161,100</b>              |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |
| <b>22,003</b>               |                 |          |        |         |                     |             |                    |        |        |        |               |                          |               |                    |             |

ST ADJ:

**Form 4562**

For:  **1120, COGS, F**  
 Multi-form code:  **(1-999; 1 is assumed if left blank)**

\*Use <F3> to switch to grid mode\*

| Description | Date Acquired | Cost / Basis | Business % use | Used Prop                | Listed Prop Type |
|-------------|---------------|--------------|----------------|--------------------------|------------------|
| TRUCK       | 07-13-2007    | 21500        |                | <input type="checkbox"/> | T                |

|  | Federal                            | State (if different)               | AMT (if different)                 | Book (if different)                |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Method.....  | <input type="text" value="M"/>     | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               |
| Life.....  | <input type="text" value="5"/>     | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               |
| Prior depreciation.....                                      | <input type="text" value="12318"/> | <input type="text" value="12318"/> | <input type="text" value="12318"/> | <input type="text" value="12318"/> |
| Salvage value.....   | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               |
| Override regular depreciation.....                           | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             |
| 179 expense elected this year.....                           | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             |
| 179 expense allowed this year.....                           | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             | = <input type="text"/>             |
| 179 expense elected in prior years.....                      | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     |
| 179 expense allowed in prior years.....                      | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     |
| Bonus depreciation <a href="#">Additional Depr Elections</a> | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               | <input type="text"/>               |
| Prior bonus depreciation. Safe Harbor....                    | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     | <input type="text" value="0"/>     |

**Other Information**

Investment credit code.....

Asset number.....

Department number.....

Asset Category.....

Land cost.....

Recapture because business use dropped to 50% or less

Reserved

**Amortization Information**

Amortization code section.....

Elect additional first-year deduction

**State-Specific Information**

State  Asset type  ITC code  State basis (if different)

**If sold:**

RSVD  F  ST  RSVD

Date sold.....

Property type..... 12

Sales price.....

Expense of sale.....

Form 4797, line 26d depreciation.....

Form 4797, other Part III depreciation.....

Depreciation Allowed or Allowable.....

**Group Sale Information**

Group sale number.....

Group sales price.....

Group expense of sale.....



**Form 4562**

For:  **1120, COGS, F**  
 Multi-form code:  **(1-999; 1 is assumed if left blank)**

\*Use <F3> to switch to grid mode\*

| Description | Date Acquired | Cost / Basis | Business % use | Used Prop                | Listed Prop Type |
|-------------|---------------|--------------|----------------|--------------------------|------------------|
| COMPUTER    | 02-14-2009    | 5200         |                | <input type="checkbox"/> |                  |

|  | Federal                           | State (if different)              | AMT (if different)                | Book (if different)               |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Method.....  | <input type="text" value="M"/>    | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              |
| Life.....  | <input type="text" value="5"/>    | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              |
| Prior depreciation.....                                      | <input type="text" value="2704"/> | <input type="text" value="2704"/> | <input type="text" value="2106"/> | <input type="text" value="2704"/> |
| Salvage value.....   | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              |
| Override regular depreciation.....                           | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            |
| 179 expense elected this year.....                           | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            |
| 179 expense allowed this year.....                           | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            | = <input type="text"/>            |
| 179 expense elected in prior years.....                      | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    |
| 179 expense allowed in prior years.....                      | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    |
| Bonus depreciation <a href="#">Additional Depr Elections</a> | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              | <input type="text"/>              |
| Prior bonus depreciation. Safe Harbor....                    | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    | <input type="text" value="0"/>    |

**Other Information**

Investment credit code.....

Asset number.....

Department number.....

Asset Category.....

Land cost.....

Recapture because business use dropped to 50% or less

Reserved

**Amortization Information**

Amortization code section.....

Elect additional first-year deduction

**State-Specific Information**

State  Asset type  ITC code  State basis (if different)

**If sold:**

RSVD  F  ST  RSVD

Date sold.....

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Form 4797, other Part III depreciation.....

Depreciation Allowed or Allowable.....

**Group Sale Information**

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Group sales price.....

Group expense of sale.....



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\*Use <F3> to switch to grid mode\*

**Description** **Date Acquired** **Cost / Basis** **Business % use** **Used Prop** **Listed Prop Type**

SECURITY SYSTEM 08-22-2007 12400

|  | Federal                 | State<br>(if different) | AMT<br>(if different)  | Book<br>(if different) |
|--|-------------------------|-------------------------|------------------------|------------------------|
| Method.....  | SL <input type="text"/> | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   |
| Life.....  | 7                       | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   |
| Prior depreciation.....                                      | 7084                    | 7084                    | 7084                   | 7084                   |
| Salvage value.....   | <input type="text"/>    | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   |
| Override regular depreciation.....                           | = <input type="text"/>  | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> |
| 179 expense elected this year.....                           | = <input type="text"/>  | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> |
| 179 expense allowed this year.....                           | = <input type="text"/>  | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> |
| 179 expense elected in prior years.....                      | 0                       | 0                       | 0                      | 0                      |
| 179 expense allowed in prior years.....                      | 0                       | 0                       | 0                      | 0                      |
| Bonus depreciation <a href="#">Additional Depr Elections</a> | <input type="text"/>    | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   |
| Prior bonus depreciation. Safe Harbor....                    | 0                       | 0                       | 0                      | 0                      |

**Other Information**

Investment credit code.....

Asset number.....

Department number.....

Asset Category.....

Land cost.....

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Amortization code section.....

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State  Asset type  ITC code  State basis (if different)

**If sold:**

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Date sold.....

Property type..... 12

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For:  **1120, COGS, F**  
 Multi-form code:  **(1-999; 1 is assumed if left blank)**

\*Use <F3> to switch to grid mode\*

| Description | Date Acquired | Cost / Basis | Business % use | Used Prop                | Listed Prop Type |
|-------------|---------------|--------------|----------------|--------------------------|------------------|
| FORKLIFT    | 09-22-2006    | 66000        |                | <input type="checkbox"/> |                  |

|  | Federal | State (if different) | AMT (if different) | Book (if different) |
|--|---------|----------------------|--------------------|---------------------|
| Method.....  | SL      |                      |                    |                     |
| Life.....  | 7       |                      |                    |                     |
| Prior depreciation.....                                      | 47143   | 47143                | 47143              | 47143               |
| Salvage value.....   |         |                      |                    |                     |
| Override regular depreciation.....                           | =       | =                    | =                  | =                   |
| 179 expense elected this year.....                           | =       | =                    | =                  | =                   |
| 179 expense allowed this year.....                           | =       | =                    | =                  | =                   |
| 179 expense elected in prior years.....                      | 0       | 0                    | 0                  | 0                   |
| 179 expense allowed in prior years.....                      | 0       | 0                    | 0                  | 0                   |
| Bonus depreciation <a href="#">Additional Depr Elections</a> |         |                      |                    |                     |
| Prior bonus depreciation. Safe Harbor....                    | 0       | 0                    | 0                  | 0                   |

**Other Information**

Investment credit code.....

Asset number.....

Department number.....

Asset Category.....

Land cost.....

Recapture because business use dropped to 50% or less

Reserved

**Amortization Information**

Amortization code section.....

Elect additional first-year deduction

**State-Specific Information**

State  Asset type  ITC code  State basis (if different)

**If sold:**

RSVD  F  ST  RSVD

Date sold.....

Property type..... 12

Sales price.....

Expense of sale.....

Form 4797, line 26d depreciation.....

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Depreciation Allowed or Allowable.....

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\*Use <F3> to switch to grid mode\*

Description Date Acquired Cost / Basis Business % use Used Prop Listed Prop Type

COMPRESSOR 11-22-2008 56000

|  | Federal                 | State (if different)   | AMT (if different)     | Book (if different)    |
|--|-------------------------|------------------------|------------------------|------------------------|
| Method.....  | SL <input type="text"/> | <input type="text"/>   | <input type="text"/>   | <input type="text"/>   |
| Life.....  | 7                       | <input type="text"/>   | <input type="text"/>   | <input type="text"/>   |
| Prior depreciation.....                                      | 24000                   | 24000                  | 24000                  | 24000                  |
| Salvage value.....   | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   | <input type="text"/>   |
| Override regular depreciation.....                           | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> | = <input type="text"/> |
| 179 expense elected this year.....                           | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> | = <input type="text"/> |
| 179 expense allowed this year.....                           | = <input type="text"/>  | = <input type="text"/> | = <input type="text"/> | = <input type="text"/> |
| 179 expense elected in prior years.....                      | 0                       | 0                      | 0                      | 0                      |
| 179 expense allowed in prior years.....                      | 0                       | 0                      | 0                      | 0                      |
| Bonus depreciation <a href="#">Additional Depr Elections</a> | <input type="text"/>    | <input type="text"/>   | <input type="text"/>   | <input type="text"/>   |
| Prior bonus depreciation. Safe Harbor....                    | 0                       | 0                      | 0                      | 0                      |

**Other Information**

Investment credit code.....   
 Asset number.....   
 Department number.....   
 Asset Category.....   
 Land cost.....   
 Recapture because business use dropped to 50% or less  
 Reserved

**Amortization Information**

Amortization code section.....   
 Elect additional first-year deduction

**State-Specific Information**

State Asset type ITC code State basis (if different)

**If sold:**

RSVD  F  ST  RSVD   
 Date sold.....   
 Property type..... 12   
 Sales price.....   
 Expense of sale.....   
 Form 4797, line 26d depreciation.....   
 Form 4797, other Part III depreciation.....   
 Depreciation Allowed or Allowable.....   
**Group Sale Information**  
 Group sale number.....   
 Group sales price.....   
 Group expense of sale.....

