

Practice Tax Return # 13 Tax Year 2011

Before starting this practice return, review the General Instructions.

Issues: This 2011 practice tax return is for an S corporation. This is an existing corporation that was granted S status as of the start of business (therefore, there are no E&P issues).

Facts:

S CORPORATION TAX RETURN

S Corporation General Information: The corporation's legal name is Sunshine S Corporation, the Employer Identification Number (EIN) is 40-0003013, the address is 789 Hope Ridge Rd, Franklin, NC 28734, and the phone number is 828-333-3333. Sunshine was incorporated in North Carolina and the incorporation date and effective date of the S election is February 28, 2002. Sunshine elected a calendar year end. The Principal Business Code is 424400 and the Principal Business Activity is wholesale. The principal product or service is food. Sunshine's method of accounting is accrual.

The data to prepare this return is presented below in table format. Following the tables are the Depreciation Detail Listing and screen shots of the Drake Software input screens.

Schedule K1 Shareholders' Information:

| Name | Social Security Number | Address | Beginning of year shares |
|----------------|------------------------|---|--------------------------|
| George Smith | 400-00-2091 | 444 Redbird Lane, Franklin, NC 28734 | 25 shares |
| Fred Smith | 400-00-2092 | 333 Sunny Lane, Franklin, NC 28734 | 75 shares |
| Martin Maxwell | 400-00-2093 | 555 Smithson Road, Franklin, NC 28734 | 50 shares |
| Manny Lopez | 400-00-2094 | 1234 Wets Green Place, Franklin, NC 28734 | 25 shares |

Other Shareholders' Information:

| Name | Beginning Basis | Salary | Title |
|----------------|-----------------|--------|------------------------------|
| George Smith | 80,942 | 10,000 | President, CEO, and Director |
| Fred Smith | 49,018 | 15,000 | Treasurer and Director |
| Martin Maxwell | 29,715 | 15,000 | Secretary and Director |
| Manny Lopez | 26,934 | 15,000 | Director |

Shareholders' Pro Rata Share Items:

| Dividends | |
|---------------------|--------|
| Ordinary dividends | 10,000 |
| Qualified dividends | 10,000 |

| Distributions | |
|------------------|---------|
| Date | Amount |
| March 3, 2011 | 120,000 |
| November 6, 2011 | 116,000 |

Income and Deductions:

| Income | |
|--|---------|
| Gross receipts or sales | 575,000 |
| Returns and allowances | 33,200 |
| Deductions | |
| Officer compensation paid to non-shareholder employees | 14,000 |
| Officer compensation paid to shareholder employees | 55,000 |
| Salaries and wages paid to non-shareholder employees | 55,000 |
| Repair and maintenance | 4,000 |
| Rents | 24,000 |
| Advertising | 7,000 |

| Other Income | |
|--|--------|
| Interest income on receivables | 4,500 |
| Taxable income from insurance proceeds | 17,977 |

| Tax and Licenses Expense | |
|--------------------------|--------|
| Local property taxes | 1,500 |
| Payroll taxes | 22,000 |
| Licenses | 1,000 |

| Cost of Goods Sold | |
|---------------------------|---------|
| Beginning inventory | 36,960 |
| Purchases | 116,000 |
| Cost of labor | 14,000 |
| Ending inventory | 17,000 |

| Other Deductions | |
|----------------------------------|--------|
| Accounting | 850 |
| Bank charges | 450 |
| Cell phones | 350 |
| Education and training | 2,950 |
| Independent contractor | 9,000 |
| Insurance building and equipment | 1,200 |
| Insurance liability | 2,500 |
| Insurance workers' compensation | 5,000 |
| Internet | 350 |
| Janitorial | 11,000 |
| Legal and professional | 3,000 |
| Marketing | 1,750 |
| Postage/shipping | 750 |
| Printing | 1,500 |
| Software | 1,000 |
| Supplies | 3,000 |
| Telephone | 575 |
| Travel | 6,200 |
| Utilities | 3,750 |

Balance Sheet except for depreciable assets:

| Assets | | |
|--------------------------------|---------|---------|
| Cash | 46,028 | 38,630 |
| Accounts receivable | 11,500 | 4,500 |
| Loans to shareholder | 19,000 | 0 |
| Liabilities and Capital | | |
| Account Payable | 7,900 | 4,900 |
| Capital Stock | 5,000 | 5,000 |
| Retained earnings | 186,609 | 124,126 |

Schedule M-2 Accumulated Adjustment Account:

| Item | AAA (a) | Other adjustment account (b) | Shareholders' Undistributed Taxable Income |
|--------------------------|---------|------------------------------|--|
| Balance at start of year | 186,609 | 0 | 0 |

Depreciation Detail Listing

FORM 1120S

For your records only

2011

PAGE 1

* Item was disposed
of during current year.

Name(s) as shown on return

Social security number/EIN

SUNSHINE S CORPORATION

40-0003013

| 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 | FREEZER | 20090712 | 13,000 | | 100.00 | | 13,000 | 5 | S/L HY | 20 | 2,600 | 6,500 | | | 2,600 |
| 2 | TRUCK | 20090413 | 66,000 | | 100.00 | | 66,000 | 5 | 200 DB HY | 19.2 | 2,950 | 10,910 | | | 2,950 |
| 3 | COMPUTER SYSTEM 2 | 20060312 | 15,000 | | 100.00 | | 15,000 | 5 | 200 DB HY | 5.76 | 864 | 13,776 | | | 546 |
| 4 | COMPUTER SYSTEM 1 | 20090312 | 55,000 | | 100.00 | 55,000 | 0 | 7 | EXP | 0 | | 55,000 | 55,000 | | |
| 5 | OFFICE FURNITURE | 20070312 | 14,000 | | 100.00 | | 14,000 | 7 | 200 DB HY | 8.93 | 1,250 | 12,397 | | | 1,715 |
| 6 | Automobile | 20100101 | 25,000 | | 100.00 | | 13,940 | 5 | 200 DB HY | 32 | 4,461 | 15,521 | | PY 11,060 | 4,461 |
| 7 | Freezer | 20100630 | 175,000 | | 100.00 | 175,000 | 0 | 5 | EXP | 0 | | 175,000 | 175,000 | | |
| Totals | | | 363,000 | | | 230,000 | 121,940 | | | | 12,125 | 289,104 | 230,000 | | 12,272 |

Land Amount
Net Depreciable Cost

363,000

ST ADJ:

Form 4562

For: **1120S, COGS, 8825, RENT, 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 |
|-------------|---------------|--------------|----------------|--------------------------|------------------|
| FREEZER | 07-12-2009 | 13000 | | <input type="checkbox"/> | |

| | Federal | State (if different) | AMT (if different) | Book (if different) |
|---|---------|----------------------|--------------------|---------------------|
| Method..... | SL | | | |
| Life..... | 5 | | | |
| Prior depreciation..... | 3900 | 3900 | 3900 | 3900 |
| 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... Additional Depr Elections | | | | |
| 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.....



Form 4562

For: 1120S, COGS, 8825, RENT, 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 | 04-13-2009 | 66000 | | <input type="checkbox"/> | T |

| | Federal | State (if different) | AMT (if different) | Book (if different) |
|---|---------|----------------------|--------------------|---------------------|
| Method..... | M | | | |
| Life..... | 5 | | | |
| Prior depreciation..... | 7960 | 7960 | 7960 | 7960 |
| 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... Additional Depr Elections | | | | |
| 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.....
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| Description | Date Acquired | Cost / Basis | Business % Use | Used Prop | Listed Prop Type |
|-------------------|---------------|--------------|----------------|--------------------------|------------------|
| COMPUTER SYSTEM 2 | 03-12-2006 | 15000 | | <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="12912"/> | <input type="text" value="12912"/> | <input type="text" value="14454"/> | <input type="text" value="12912"/> |
| 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"/> | <input type="text" value="0"/> |
| 179 expense allowed in prior years..... | <input type="text" value="0"/> | <input type="text" value="0"/> | <input type="text"/> | <input type="text" value="0"/> |
| Bonus depreciation... Additional Depr Elections | <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"/> | <input type="text" value="0"/> |

Other Information

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Asset number.....

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Asset Category.....

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Amortization Information

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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.....

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| Description | Date Acquired | Cost / Basis | Business % Use | Used Prop | Listed Prop Type |
|-------------------|---------------|--------------|----------------|--------------------------|------------------|
| COMPUTER SYSTEM 1 | 03-12-2009 | 55000 | | <input type="checkbox"/> | |

| | Federal | State (if different) | AMT (if different) | Book (if different) |
|---|---------|----------------------|--------------------|---------------------|
| Method..... | EXP | | | |
| Life..... | 7 | | | |
| Prior depreciation..... | 0 | 0 | 55000 | 0 |
| Salvage value..... | | | | |
| Override regular depreciation..... | = | = | = | = |
| 179 expense elected this year..... | = | = | = | = |
| 179 expense allowed this year..... | = | = | = | = |
| 179 expense elected in prior years..... | 55000 | 55000 | | 0 |
| 179 expense allowed in prior years..... | 55000 | 55000 | | 0 |
| Bonus depreciation... Additional Depr Elections | | | | |
| Prior bonus depreciation. Safe Harbor.... | 0 | 0 | | 0 |

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| Description | Date Acquired | Cost / Basis | Business % Use | Used Prop | Listed Prop Type |
|------------------|---------------|--------------|----------------|--------------------------|------------------|
| OFFICE FURNITURE | 03-12-2007 | 14000 | | <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="7"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Prior depreciation..... | <input type="text" value="11147"/> | <input type="text" value="11147"/> | <input type="text" value="10768"/> | <input type="text" value="11147"/> |
| 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"/> | <input type="text" value="0"/> |
| 179 expense allowed in prior years..... | <input type="text" value="0"/> | <input type="text" value="0"/> | <input type="text"/> | <input type="text" value="0"/> |
| Bonus depreciation... Additional Depr Elections | <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"/> | <input type="text" value="0"/> |

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| Description | Date Acquired | Cost / Basis | Business % Use | Used Prop | Listed Prop Type |
|-------------|---------------|--------------|----------------|--------------------------|------------------|
| Automobile | 01-01-2010 | 25000 | 100 | <input type="checkbox"/> | V |

| | 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="0"/> | <input type="text" value="0"/> | <input type="text" value="11060"/> | <input type="text" value="0"/> |
| 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"/> | <input type="text" value="0"/> |
| 179 expense allowed in prior years..... | <input type="text" value="0"/> | <input type="text" value="0"/> | <input type="text"/> | <input type="text" value="0"/> |
| Bonus depreciation... Additional Depr Elections | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Prior bonus depreciation. Safe Harbor.... | <input type="text" value="11060"/> | <input type="text" value="11060"/> | <input type="text"/> | <input type="text" value="0"/> |

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| Description | Date Acquired | Cost / Basis | Business % Use | Used Prop | Listed Prop Type |
|-------------|---------------|--------------|----------------|--------------------------|----------------------|
| Freezer | 06-30-2010 | 175000 | 100 | <input type="checkbox"/> | <input type="text"/> |

| | Federal | State (if different) | AMT (if different) | Book (if different) |
|---|--------------------------|------------------------|------------------------|------------------------|
| Method..... | EXP <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Life..... | 5 | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Prior depreciation..... | 0 | 0 | 175000 | 0 |
| 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..... | 175000 | 175000 | <input type="text"/> | 0 |
| 179 expense allowed in prior years..... | 175000 | 175000 | <input type="text"/> | 0 |
| Bonus depreciation... Additional Depr Elections | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| Prior bonus depreciation. Safe Harbor... <input type="text"/> | 0 | 0 | <input type="text"/> | 0 |

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