MGT 4010/6010 Fall 2015

Dr. J. Turner

Case 4 – Corporate Tax return due November 24, 2015 (revised due date)

1. The Case 4 assignment is due in class on November 24. It may be turned in early. It will not be accepted after November 24. You must turn in a hard copy. I will not accept the assignment electronically.
2. You may, and I encourage you to work with a partner. I will accept assignments from groups of no more than two students. Please put each student’s name on the assignment. Each student in the partnership will receive the same grade.
3. You are required to complete and turn in (1) 2014 Form 1120 (all five pages), Schedule D (Form 1120), and Schedule G (Form 1120), (2) a detail schedule showing your computation of the corporate income tax due on taxable income. No other official forms or schedules are necessary to be submitted. When completing Schedule D, do not complete or submit Form 8949.

***Required:***

* Complete Carlyle Catering Service Inc.'s (CCS) 2014 Form 1120, Schedule D, and Schedule G (if applicable) using the information provided below.
* Form 4562 for depreciation is not required. Include the amount of tax depreciation given in the problem on the appropriate line on the first page of Form 1120.
* Assume that CCS does not owe any alternative minimum tax.
* If any information is missing, use reasonable assumptions to fill in the gaps.
* The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.
* You must determine any book/tax differences in computing federal taxable income. I would suggest that you start with Schedule M-1, and complete that schedule before you start preparation of the required tax forms.

***Facts:***

Sara Siler, Frank Funk, and Connie Cloward each own one-third of the common stock of Blue Catering Services Inc. (CCS). CCS was incorporated on February 4, 2008. It has only one class of stock outstanding and operates as a C corporation for tax purposes. CCS caters all types of social events throughout southern California.

* CCS is located at 540 Bagel Way, Cloud Nine, CA 92000.
* CCS's Employer Identification Number is 38-4743474.
* CCS's business activity is catering food and services. Its business activity code is 722300.
* The shareholders also work as officers for the corporation as follows:
  + Sara is the chief executive officer and president (Social Security number 231-54-8976).
  + Frank is the executive vice president and chief operating officer (Social Security number 798-56-3241).
  + Connie is the vice president of finance (Social Security number 879-21-4536).
* All officers devote 100 percent of their time to the business and all officers are U.S. citizens.
* CCS uses the accrual method of accounting and has a calendar year-end.
* CCS made four equal estimated tax payments of $20,000 each. Its tax liability last year was $70,000, and last year’s return covered a full year. If it has overpaid its federal tax liability, CCS would like to receive a refund.
* CCS paid a dividend of $30,000 to its shareholders on November 1. CCS had ample earnings and profits (E&P) to absorb the distribution.

The following is CCS's audited income statement, prepared in accordance with GAAP, for 2014:

|  |  |
| --- | --- |
| **CCS Income Statement For year ending December 31, 2014** | |
| Revenue from sales | $ 1,800,000 |
| Sales returns and allowances | (5,000) |
| Cost of goods sold | (350,000) |
| **Gross profit from operations** | $ 1,445,000 |
| **Other income:** |  |
| Capital loss | (15,000) |
| Dividend income | 25,000 |
| Interest income | 10,000 |
| Gross income | $ 1,465,000 |
| **Expenses:** |  |
| Compensation | (950,000) |
| Depreciation | (10,000) |
| Bad debt expense | (15,000) |
| Meals and entertainment | (3,000) |
| Maintenance | (6,000) |
| Property taxes | (11,000) |
| State income taxes | (45,000) |
| Other taxes | (44,000) |
| Rent | (60,000) |
| Interest | (5,000) |
| Advertising | (52,000) |
| Professional services | (16,000) |
| Employee benefits | (32,000) |
| Supplies | (5,000) |
| Other expenses | (27,000) |
| Total expenses | (1,281,000) |
| Income before taxes | 184,000 |
| Federal income tax expense | (62,000) |
| Net income after taxes | $  122,000 |

Notes:

1. CCS's inventory-related purchases during 2014 were $360,000. It values its inventory based on cost using the FIFO inventory cost flow method. Assume the rules of §263A do not apply to CCS.
2. Of the $10,000 interest income, $1,250 was from a City of Irvine bond that was used to fund public activities (issued in 2012), $1,750 was from an Oceanside city bond used to fund private activities (issued in 2005), $1,000 was from a U.S. Treasury bond, and the remaining $6,000 was from a money market account.
3. CCS's dividend income came from Clever Cakes Inc. (CC). CCS owned 10,000 shares of the stock in Clever Cakes at the beginning of the year. This represented 10 percent of SSM outstanding stock.
4. On October 1, 2014, CCS sold 1,000 shares of its CC stock for $25,000. It had originally purchased these shares on April 18, 2009, for $40,000. After the sale, CCS owned 9 percent of CC.
5. CCS's compensation is as follows:
   * Sara $150,000
   * Frank $140,000
   * Connie $130,000
   * Other $530,000
6. CCS wrote off $25,000 in accounts receivable as uncollectible during the year.
7. CCS's regular tax depreciation was $28,000. None of the depreciation should be claimed on Form 1125A (cost of goods sold).
8. The $5,000 interest expense was from a bona fide business loan.
9. Other expenses include $6,000 for premiums paid on term life insurance policies for which CCS is the beneficiary. The policies cover the lives of Sara, Frank, and Connie.

The following are CCS's audited balance sheets as of January 1, 2014, and December 31, 2014.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | | |
|  | **January 1** | **December 31** |  |
| **Assets** |  |  |  |
| Cash | $ 180,000 | $ 205,000 |  |
| Accounts receivable | 560,000 | 580,000 |  |
| Allowance for doubtful accounts | (60,000) | (50,000) |  |
| Inventory | 140,000 | 150,000 |  |
| U.S. government bonds | 20,000 | 20,000 |  |
| State and local bonds | 120,000 | 120,000 |  |
| Investments in stock | 400,000 | 360,000 |  |
| Fixed assets | 140,000 | 160,000 |  |
| Accumulated depreciation | (50,000) | (60,000) |  |
| Other assets | 20,000 | 21,000 |  |
| Total assets | $1,470,000 | $1,506,000 |  |
| **Liabilities and Shareholders' Equity** | | |  |
| Accounts payable | 280,000 | 240,000 |  |
| Other current liabilities | 20,000 | 18,000 |  |
| Other liabilities | 40,000 | 26,000 |  |
| Capital stock | 400,000 | 400,000 |  |
| Retained earnings | 730,000 | 822,000 |  |
| Total liabilities and shareholders' equity | $1,470,000 | $1,506,000 |  |