A & B Office

Income Tax Training School

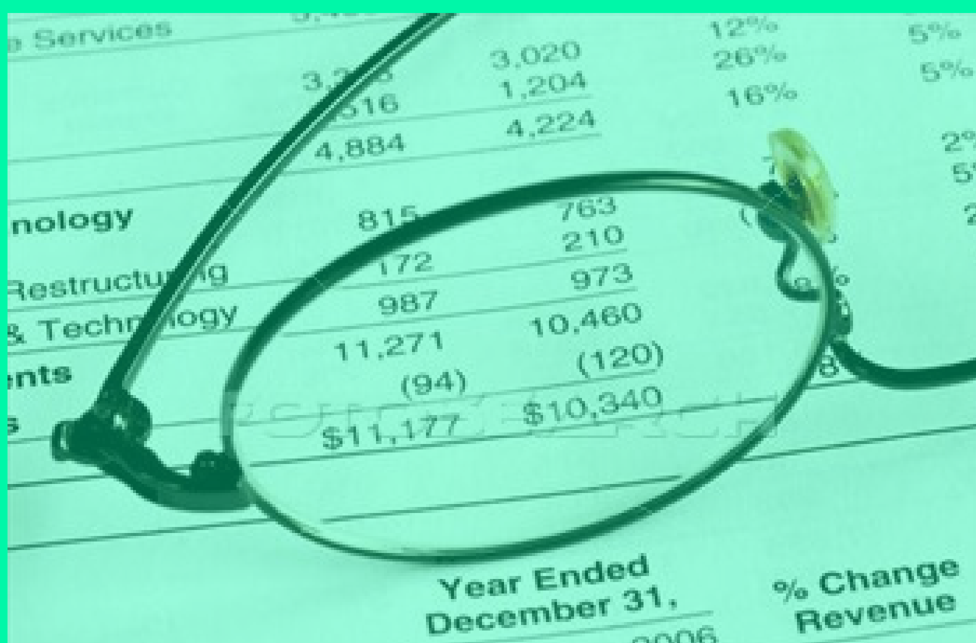
Corporate Taxation

Second Edition

C

2014/2015 Edition

Preparing a C-Corporation Tax Return: Form 1120



Self Improvement Mini-Course

INTRODUCTION

How To Succeed With This Mini-Course

We know that many tax preparers want to expand their practice and acquire more clientele. Many don't know how to do it or where to start. Learning the inner workings of the corporate tax return is a great opportunity to acquire more clients, since many taxpayers are protecting themselves by forming corporations. Do not turn your back on this type of growing clientele. Calculating the corporate return, at times, can be easier than completing a long 1040A tax form. The advice is simple, invest some time in learning how to prepare the corporate tax return and the benefits are just around the corner. With the proper focus, corporate tax returns are not nearly as difficult as one first imagined. Also, using a good tax preparation software will help solve trivial number issues - helping you focus on the most important business issues at hand (will vary by client).

After completing this self improvement Mini-course, you will gain the practical knowledge needed to complete and file Form 1120 - and related schedules - for your clients. The course consists of sixteen chapters that include comprehensive exercises throughout. When you complete the course you should be able to:

1. Talk to your client with confidence. You will improve your corporate vocabulary and will be able to explain (and better understand) your client's financial position.
2. Understand and complete corporate tax return Form 1120, including the special dividend deductions for Schedule C, charitable contributions and their limitations.
3. Reconcile the difference between "book" and "tax income" on the Schedule M-1.
4. Understand and complete Form 4797 (sale of business property) and the associated Schedule D on Form 1120.
5. Compute the corporate tax on Schedule J.
6. Make substantially better financial decisions for your client - as you will be more knowledgeable of the tax implications.

The course does more than explain the 1120 Form and related schedules - it actually lets you complete them. After you learn how to fill out each section you get to do it yourself. Even if you choose not to fill out the blank forms before seeing the completed ones; fill them in afterwards and you will still learn plenty. The simple act of filling out the forms will increase your comfort level when you need to complete them for your company or client.

To Get The Most Out Of The Course We Suggest The Following:

1. Read the concise narrative at the beginning of each chapter.
2. Read the narrative again. This time, cover the solution and try to figure out the problem at hand. Write out your work, and try to solve the problem; then check your answer against the correct solution - you will learn a great deal. You will find the solutions at the end of the study material. When reviewing the solutions, you will note that the solutions contain the entire question helping you better understand the entire exercise; so you don't have to go back and forward.
3. At the end of the Mini-course, there is a comprehensive exercise that pulls everything together by showing you how to fill out and complete Form 1120 and the related schedules (for a typical C-Corporation).

Last, please note that this course is as current as the form/publication dates: 2014. Since tax laws are always changing, double-check the latest corporate tax rates, depreciation rates, and other rates when you are completing your client's tax return. Also, check for changes in the tax law, new IRS pronouncements, and recent court cases that may affect the return.

Enjoy this Mini-course and congratulations on taking a major step toward advancing your professional knowledge and career. Remember you have 20 days of technical support from the date of purchase.

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1 The Corporation

TAX LAW

The primary purpose of the federal income tax laws is raising revenue to pay for the operations of the government. In addition to the primary revenue-producing purpose, many amendments to the Internal Revenue Code have been enacted for other purposes. Federal taxation has changed since 1913 in both purpose and magnitude. The income tax system has become an instrument of the government for economic and social policy.

Through its taxing powers, the government can attempt to distribute income more equitably, stimulate economic growth, combat inflation and unemployment, and finance projects it considers socially desirable. In addition, a number of changes in the tax laws are the result of political influences on Congress, which formulates tax laws. Thus, multidimensional influences have contributed to the complexity of rapidly changing income tax laws. Because of these factors, the business manager must be keenly aware of the changing effect of income taxes on the business decision process.

CLASSIFICATION OF TAXPAYERS

In this, and the following chapters, we consider various aspects of corporate accounting. In this chapter, we emphasize the organization of the corporation and the accounting procedures for its capital stock transactions, that you need to understand in order to report it to the IRS. As a tax preparer, you already are familiar with Form 1040, but here we display the main entities that are recognized for purposes of federal income tax.

• Individuals	(File Form 1040)
• Partnerships	(File Form 1065)
• Corporations	(File Form 1120 or 1120S)
• Estates or trusts	(File 1041)

As an introduction to this Mini-Course, here we included a brush-up on individuals, partnerships, and corporations. We leave estates and trusts to an advanced course. Although they are business entities, sole proprietorship and partnerships are not taxable entities. The owners of such companies must include their shares of business income along with income from other sources in their respective individual tax returns. The allocable shares of their business income are taxed directly to them whether or not they have withdrawn such amounts. In conjunction with this requirement, each partnership must file an information return showing the results of the company's operations and the respective shares of net income accorded to each partner.

As taxable entities, corporations are taxed directly on their earnings. Shareholders receiving distributions of earnings must include these amounts as dividend income on their individual returns. Although this practice has led to the allegation that corporate earnings are subject to "double taxation," it is generally conceded that the bulk of corporate taxes are passed on to the consumer in the long run.

Under Subchapter S of the Internal Revenue Code, certain corporations generally are not taxed but pass income and losses through to their owners like partnerships. Companies meeting the Subchapter S criteria are referred to as S-Corporations. For this purposes they use Form K-1.

Because of the many technical differences between the tax computations for individuals, and those for corporations, we consider them separately. Thus, we first discuss the more important features of individual income tax and then briefly cover some important features of corporate income tax. Keep in mind that the provisions of the tax laws relating to tax rates, exemption amounts, various prescribed limits, and other details have been changing rapidly and will continue to change.

Exhibit 1-5

Format for Determining Tax Liability on Form 1120*

Total Income (All income from whatever source) (Lines 1-10)	XXXX
Less: Deductions: (Items of expenses excluded by law (Lines 12-26)	(XXXX)
Less: NOL and special deductions (Line 29)	(XXXX)
Taxable Income (Line 30- Amount used to compute the tax from the appropriate tax rate schedule - Page 7 of this Mini-course)	XXXX
Total Tax (Line 31- Total tax the corporation is liable)	**XXXX**
Less: Overpayments and Credits (Line 32) Payments made during the year and credits for fuels, ozone-depleting chemicals and others	**(XXXX)**
Plus: Penalty (Line 33)	**XXXX**
Amount owed /Overpayment (Line 34 -35)	**XXXX**

* Familiarize yourself with Form 1120, review it at the end of this chapter

Now compare exhibits 1-2 and 1-5 and study the differences between them. You will notice that some times there is less work involved in preparing the corporate return.

Corporate Tax Illustration. So far you are eager to prepare a tax return, but before that we want to give you an important clue in preparing a return successfully. To prepare the tax return, you should first focus on the big picture of the business. Exhibit 1-6, shows an example using the following data from the company's income statement for the year ended December 31, 2014.

Gross profit on sales	$500,000
Dividends from >20% foreign corporations (see page 8)	40,000
Gain on sale of capital asset	10,000
	550,000
Business expenses, including charitable contributions of $20,000	380,000
Total reported income before taxes	$170,000

Take note that in this example, the corporation has $3,000 of net capital loss carryforward from year 2013, which is not recorded in the books for the 2014 period (normally this is done off-record). Instead, the corporation recorded $36,407 of income tax liability.

Now with the big picture of the corporation's figures, we are ready to work on the corporations taxes. First we need to study the differences between the books financial statements and the IRS reporting statements, which play an important roll during the preparation of the corporation's tax return. For now, study the following comparative examples.

Exhibit 1- 6

CORPORATE TAX COMPUTATION
FOR THE YEAR ENDED DEC. 31, 2014

		IRS	Per Books	Difference
Gross profit		$500,000	$500,000	$ -
Dividends from (from 20% + owned foreign corporation)		40,000	40,000	-
Gain on sale of capital asset		10,000	10,000	-
Less: Net capital loss carryforward (from previous years)		-3,000	-	(3,000)
Total Income		547,000	550,000	(3,000)
Business expenses (Other Deductions)		360,000	360,000	-
Sub Total		187,000	190,000	(3,000)
Charitable contributions, limited to 10% of $187K		18,700	20,000	1,300
Total Income before Net Operating Losses and Special Deduction *		**$168,300 (1)**	**$170,000**	**(1,700)**
Less: Special Deductions:				
Dividends received deduction, 80% of $40,000 (from 20% + owned foreign corporation)		32,000	-	(32,000)
NOL carryforward		-	-	-
Taxable Income		$136,300	$170,000	(33,700)
Tax Calculation:				
Regular tax (See table on page 7)	$22,250			
Surtax 39% of ($136,300 - $100,000)	14,157			
Total tax liability		$ 36,407	$36,407	-
Net Income		$ 99,893	$133,593	($33,700)

* Keep this line in mind. It will help you to fill out Schedule M-1.

If you compare the corporate income statement using the format shown above you will get the big picture and it will be easy to understand the company transactions, making you more confident when filling out tax forms.

Please note that when filling out the tax forms, the IRS requests a reconciliation in Schedule M-1, between the **Total Income before Net Operating Losses and Special Deduction** and the Net Income per books. This requirement is mandatory when the company reports more than $250,0000 in income. The reconciliation follows:

Schedule M-1

Net Income per books less tax liability ($170,000 - $36,407)	$ 133,593
Plus: Income tax	36,407
Difference in charity contributions	1,300
Less:	
Capital loss carryforward	(3,000)
Total Income before Net Operating Losses and Special Deduction	$ 168,300 (1)

S-Corporations. File Form 1120S regardless of the amount of income or loss. It must be filed even if it stops conducting business. An S-Corporations profit or loss is passed through to shareholders and reported on the shareholder's Schedule K- 1 by he 15th day of March. Estimated tax: Shareholders are responsible for payment of estimated tax on their tax returns.

COMPARING BUSINESS ORGANIZATIONS

Most large businesses operate as corporations to have wider access to capital, limit liability, or enjoy other advantages of incorporation. For small businesses, with perhaps a single owner or a few owners, tax considerations may well influence the form of ownership. Let us examine some general factors in determining the relative tax effects. First, all income of single proprietorships and partnerships is taxable to the owners as earned, whether or not it is distributed. Second, corporations must pay a tax on earnings, but may deduct reasonable salaries paid to owners. Furthermore, corporations may pay only a portion of the earnings as dividends (as long as accumulations are not deemed unreasonable). Other relevant factors are the amount of the business earnings and the amount of the owners' other separate income.

For example, consider the comparative tax effects of the corporate and sole proprietorship forms of organization for a married individual whose business is expected to generate $150,000 net income annually. Of this amount, $30,000 is withdrawn each year (as a salary, if the corporate form is used). A comparison of the total tax effect of the two forms of organization is shown below. The example assumes no distribution of dividends by the corporation. This policy might require justification if questioned by the IRS. Generally, the IRS may impose a penalty on unreasonable retention of earnings without a genuine business purpose. Of course, the owner will be taxed on the $89,950 earnings retained ($120,000 — $30,050 tax) if distributed in the future. However, it is almost always beneficial to defer taxes to the future. Obviously, no general rule or formula can determine the most beneficial form of organization for tax purposes. The type of analysis we have illustrated may be modified in response to changes in the levels of business income, other income, reasonableness of salary levels, dividend policy, and other factors. The addition of owners and increases in the size and scope of the business may be influential. Finally, depending on the nature of the ownership, small corporations can sometimes elect to be taxed as partnerships.

Exhibit 1-7

Comparative Tax Results : Two Forms of Organization As Of 12/31/14

		Corporation	**Sole Proprietors**
Income from business		$ 150,000	$150,000
Less: Owner's salary		30,000	-
Taxable business income		120,000	150,000
Corporate tax (See p. 7):			
On $100,000	= $ 22,250		
+ 39% over 100K	= 7,800		
		30.050	
Individual Tax:			
Total Income	$ 150,000		
Less: 1/2 Self Employment Tax	-9,293		
Standard Deduction	-12,400		
Exemptions	-7,900		
Taxable Income	120,437		
Tax on:			
$120,437 (See p. 6)	= $10,163		
25% x $46,637	= 11,659		
Self Employment Tax	= 18,525		
		-	40,347
Total Tax		30,050	40,347
Net Income		$ 89,950	$ 109,653

Tax Return Prepared For Example On Exhibit 1-6

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return
For calendar year 2014 or tax year beginning ________, 2014, ending ________, ________
► **Information about Form 1120 and its separate instructions is at *www.irs.gov/form1120*.**

OMB No. 1545-0123
2014

A Check if:	TYPE OR PRINT	Name	B Employer identification number
1a Consolidated return (attach Form 851) ☐		EXHIBIT 6	20-2134213
b Life/nonlife consolidated return ☐		Number, street, and room or suite number. If a P.O. box, see instructions. YOUR ADDRESS	C Date incorporated 01/01/2012
2 Personal holding co. (attach Sch PH) ☐		City or town, state, or province, country and ZIP or foreign postal code YOUR CITY CA 90000	D Total assets (see instructions) $ 150,000.
3 Personal service corp (see instrs) ☐			
4 Schedule M-3 attached ☐	E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change		

INCOME

1a	Gross receipts or sales	1a	500,000.		
b	Returns and allowances	1b			
c	Balance. Subtract line 1b from line 1a			1c	500,000.
2	Cost of goods sold (attach Form 1125-A)			2	
3	Gross profit. Subtract line 2 from line 1c			3	500,000.
4	Dividends (Schedule C, line 19)			4	40,000.
5	Interest			5	
6	Gross rents			6	
7	Gross royalties			7	
8	Capital gain net income (attach Schedule D (Form 1120))			8	7,000.
9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9	
10	Other income (see instructions — attach statement)			10	
11	**Total income.** Add lines 3 through 10 ►			11	547,000.

For $40K in dividends there is $32K credit in line 29b.

Capital gain minus loss carryover

DEDUCTIONS (SEE INSTRUCTIONS FOR LIMITATIONS ON DEDUCTIONS)

12	Compensation of officers (see instructions — attach Form 1125-E) ►			12	
13	Salaries and wages (less employment credits)			13	
14	Repairs and maintenance			14	
15	Bad debts			15	
16	Rents			16	
17	Taxes and licenses			17	
18	Interest			18	
19	Charitable contributions			19	18,700.
20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			20	
21	Depletion			21	
22	Advertising			22	
23	Pension, profit-sharing, etc, plans			23	
24	Employee benefit programs			24	
25	Domestic production activities deduction (attach Form 8903)			25	
26	Other deductions (attach statement)			26	360,000.
27	**Total deductions.** Add lines 12 through 26 ►			27	378,700.
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11			28	168,300.
29a	Net operating loss deduction (see instructions)	29a			
b	Special deductions (Schedule C, line 20)	29b	32,000.		
c	Add lines 29a and 29b			29c	32,000.

10% Deductible of net income.

Keep this line in mind to reconcile the income on Sch. M-1.

TAX, REFUNDABLE CREDITS, AND PMTS

30	**Taxable income.** Subtract line 29c from line 28 (see instructions)	30	136,300.
31	Total tax (Schedule J, Part I, line 11)	31	36,407.
32	Total payments and refundable credits (Schedule J, Part II, line 21)	32	
33	Estimated tax penalty (see instructions). Check if Form 2220 is attached ► ☐	33	0.
34	**Amount owed.** If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34	36,407.
35	**Overpayment.** If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	
36	Enter amount from line 35 you want: **Credited to 2015 estimated tax** ► **Refunded** ►	36	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

► Signature of officer | Date | ► Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ► A & B OFFICE			Firm's EIN ►	
Firm's address ► 12432 OXNARD ST NORTH HOLLYWOOD, CA 91606			Phone no.	

Due date is March 15th for corporations.

BAA For Paperwork Reduction Act Notice, see separate instructions. CPCA0212 07/11/14 Form **1120** (2014)

2 The Corporate Business Organization & Its Capital

Throughout your practice you have been dealing with sole proprietorships and the individual tax return; Form 1040. In Chapter One, we saw how a partnership business organization differs from the sole proprietorship, that difference is in the area of capital recognition and distribution of earnings. A third form of business organization is the corporation.

A corporation has been defined as "an artificial being, invisible, intangible, and existing only in contemplation of the law". Prior discussions have referred to the fact that certain forms of "personal service" businesses are prohibited from adopting the corporate form of organization and thus organize as either a sole proprietorship or a partnership. The reason for this prohibition relates to the fact that there are limitations placed on the liability of the owners of a corporation. This aspect will be discussed in greater detail shortly.

A corporation is a legal entity separate from its owners. A sole proprietorship and a partnership are relatively unstable, and a partnership has a limited life due to the dissolution that results from the death or retirement of a partner or the change in composition of the partnership.

The primary difference in accounting for a corporation is in the area of the capital of the organization. The capital section on the balance sheet of a corporation is known as Stockholders' Equity. Stockholders' equity represents the ownership of the assets of the corporation as evidenced by transferable shares of stock. The owners of the corporation are called stockholders or shareholders. A corporation is said to have an unlimited life due to the fact that the ownership in the corporation is in the form of shares of stock, which are easily transferable; thus, the death of a stockholder has no effect on the continuance of the business organization. While the stockholders are the owners of the corporation, they have no direct duties or responsibilities in the running of the organization. This activity is the responsibility of a board of directors who are elected to their positions by the stockholders. The directors then select a president and other corporate officers to carry on active management of the business.

With the exception of "personal service" businesses, practically any form of business may choose to organize as a corporation. Corporations may be classified as profit corporations or not-for-profit corporations. A profit corporation engages in business activities and depends upon profitable operations in order to continue in existence. A not-for-profit corporation includes charitable, governmental, philanthropic, educational, and recreational organizations that depend upon contributions from their members or upon gifts or grants from public and private sources.

Profit corporations may be further classified as *public corporations* or *close corporations*. A Public corporation is a profit corporation whose ownership is widely held by the public, such as Amazon or Microsoft. A closed Corporation is a profit corporation in which the stock is held by relatively few individuals, such as the immediate family of an individual or group of individuals who organized and operate the corporation. With the exceptions previously noted, corporations may consist of service businesses, retail businesses, manufacturing businesses, and wholesale businesses. Practically any form of business may organize as a corporation. Regardless of the nature or purpose of the corporations, they are created in accordance with state statutes.

ADVANTAGES OF THE CORPORATE FORM

There are a number of advantages offered by the corporate form of organization that are not available to other business forms. The advantages are as follows:

1. CAPITAL ACCUMULATION - is virtually unlimited, it's based on the ability to sell shares of ownership in the business. Some corporations may have more than a million stockholders. By selling stock to the general public, the necessary capital can be raised to organize and subsequently operate the business. This permits small and large investors to participate in the ownership of a business enterprise and earn income in the form of dividends.

its own shares, these become known as Treasury Stock. The difference between the number of shares issued and those outstanding represents treasury stock. When a corporation buys back its own stock, the stock loses certain rights that the traditional stockholder has. Treasury stock does not share in dividend distributions and, if the treasury stock is common, voting rights are lost as well.

Entries on the corporate books are made only when the following kinds of stock transactions take place:

1. Corporate sale of authorized stock.
2. Corporate purchase of its own stock in the open market.
3. Corporate sale of treasury stock.

CORPORATE SALE OF STOCK

When a corporation sells its authorized stock, this stock, regardless of its class, may be sold at par (stated value), above par, or below par value. Stock is sold at par when the selling price of the stock is identical with the par value.

Example 2. A corporation is authorized to sell 10,000 shares of $10 par common stock. It issues 1,500 shares at par. The following entry illustrates this sale:

		Dr	Cr
May 4, 20__	Cash	$15,000	
	Common Stock		$15,000
	Sold 1,500 shares at par.		

Form 1120 - Schedule L

	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock: a Preferred stock				
	b Common stock	15,000			
23	Additional paid-in capital				
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated				
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		( )		( )
28	Total liabilities and shareholders' equity		15,000		

Even though the par or stated value of stock is an arbitrary value, new issues of stock would probably sell for these values. The price at which stock is sold is influenced by many factors, including financial conditions, potential earning power, the availability of money in the economy for investment purposes, and the general business and economic conditions. A successful corporation wishing to raise additional capital for expansion purposes may find it easier to sell additional authorized shares at a PREMIUM. When shares are sold at a premium, the amount of cash generated from the sale is in excess of the par or stated value of the stock. When this situation occurs, the following entry is recorded:

		Dr	Cr
May 16, 20__	Cash	$115,000	
	Preferred Stock (8%)		$100,000
	Premium on Preferred Stock		15,000
	Sold 2,000 $50 par 8% preferred stock at a premium.		

The price paid for the treasury stock is set up on the books regardless of the par value. No gain or loss is recognized when the stock is purchased.

Form 1120 - Schedule L

	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock: **a** Preferred stock				
	b Common stock				
23	Additional paid-in capital				
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated				
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		(7,500)		(
28	Total liabilities and shareholders' equity				

Treasury Stock is treated as a subtraction of Stockholders' Equity.

SALE OF TREASURY STOCK

If 200 shares of treasury stock were subsequently sold, the difference between the selling price and the purchase price would be shown in an account called paid-in-capital from treasury stock. The balance in this account would either represent an increase or a decrease in the paid-in capital section of the stockholders' equity section of the balance sheet. The following entry illustrates the sale of the 200 shares of treasury stock:

		Dr	Cr
Sept. 5, 20__	Cash	$3,400	
	Paid-In Capital from Treasury Stock		$ 400
	Treasury Stock		3,000
	Sold 200 shares of treasury stock.		

Each share of treasury stock had a cost assigned to it of $15. The stock was sold at $17 per share, thus, a total gain of $400 was recognized from its sale.

Corporations are not in the business of dealing or speculating in their own stock. The stock might have initially been repurchased for the purpose of distribution to the employees as part of a profit-sharing plan or some other arrangement. Remember that the benefits available to other stockholders are not available to holders of treasury stock.

Occasionally, a corporation may purchase assets and pay for them through the issuance of stock. When this sale of stock takes place, the assets are set up on the books at their cash value. If the value of the stock given is greater than the assets acquired, a discount is recorded. The same procedure is followed in recognizing a premium. The assets acquired simply take the place of the cash that would have otherwise been received as a result of a traditional sale of stock.

CORPORATE FINANCIAL STATEMENTS

All forms of business organizations prepare financial statements at least once a year. These statements are required by the various governments (federal, state, and city) for income tax purposes. Businesses as well as other interested parties, utilize the information provided by these statements.

The income statement for a corporation is identical to that of a sole proprietorship and a partnership. Since the ownership of a corporation is in the form of shares of stock, there is no statement of capital prepared, as previously illustrated. Income earned by a corporation and dividends paid are reflected in an account entitled "Retained Earnings." It becomes necessary for a corporation to prepare a retained earnings statement, which

Exhibit 3-1

SCHEDULE D (Form 1120)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ **Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, or certain Forms 990-T.**
▶ **Information about Schedule D (Form 1120) and its separate instructions is at *www.irs.gov/form1120*.**

OMB No. 1545-0123
2014

Name	**Employer identification number**

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	**(d)** Proceeds (sales price)	**(e)** Cost (or other basis)	**(g)** Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	**(h) Gain or (loss)** Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

4 Short-term capital gain from installment sales from Form 6252, line 26 or 37	**4**	
5 Short-term capital gain or (loss) from like-kind exchanges from Form 8824	**5**	
6 Unused capital loss carryover (attach computation)	**6**	( )
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column h.	**7**	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	**(d)** Proceeds (sales price)	**(e)** Cost (or other basis)	**(g)** Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	**(h) Gain or (loss)** Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked				

11 Enter gain from Form 4797, line 7 or 9	**11**	
12 Long-term capital gain from installment sales from Form 6252, line 26 or 37	**12**	
13 Long-term capital gain or (loss) from like-kind exchanges from Form 8824	**13**	
14 Capital gain distributions (see instructions)	**14**	
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column h	**15**	

Part III **Summary of Parts I and II**

16 Enter excess of net short-term capital gain (line 7) over net long-term capital loss (line 15)	**16**	
17 Net capital gain. Enter excess of net long-term capital gain (line 15) over net short-term capital loss (line 7)	**17**	
18 Add lines 16 and 17. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns . .	**18**	

Note. *If losses exceed gains, see **Capital losses** in the instructions.*

For Paperwork Reduction Act Notice, see the Instructions for Form 1120. Cat. No. 11460M **Schedule D (Form 1120) (2014)**

Schedule D For Rock Corporation

SCHEDULE D (Form 1120) Department of the Treasury Internal Revenue Service	Capital Gains and Losses ► Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, or certain Forms 990-T. ► Information about Schedule D (Form 1120) and its separate instructions is at *www.irs.gov/form1120.*	OMB No. 1545-0123 **2014**
Name: Rock Corporation		Employer identification number: 33-6666666

Part I — Short-Term Capital Gains and Losses — Assets Held One Year or Less

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	**(d)** Proceeds (sales price)	**(e)** Cost (or other basis)	**(g)** Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	**(h) Gain or (loss)** Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked	1,500.	5,780.	-30.	-4,310.
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

4 Short-term capital gain from installment sales from Form 6252, line 26 or 37	4	
5 Short-term capital gain or (loss) from like-kind exchanges from Form 8824	5	
6 Unused capital loss carryover (attach computation)	6	
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column h	7	-4,310.

Part II — Long-Term Capital Gains and Losses — Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	**(d)** Proceeds (sales price)	**(e)** Cost (or other basis)	**(g)** Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	**(h) Gain or (loss)** Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked	3,600.	2,460.	-80.	1,060.
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked				

The loss of $3,250 is not reported in Part III, nor is it carried to page 1 of Form 1120.

11 Enter gain from Form 4797, line 7 or 9	11	
12 Long-term capital gain from installment sales from Form 6252, line 26 or 37	12	
13 Long-term capital gain or (loss) from like-kind exchanges from Form 8824	13	
14 Capital gain distributions (see instructions)	14	
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column h	15	1,060.

Part III — Summary of Parts I and II

16 Enter excess of net short-term capital gain (line 7) over net long-term capital loss (line 15)	16	
17 Net capital gain. Enter excess of net long-term capital gain (line 15) over net short-term capital loss (line 7)	17	
18 Add lines 16 and 17. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns. **Note.** *If losses exceed gains, see **Capital losses** in the instructions.*	18	

BAA For Paperwork Reduction Act Notice, see the Instructions for Form 1120. CPCA0301 06/16/14 Schedule **D** (Form 1120) 2014

Exhibit 3-3

	2011	2012	2013	2014	2015
Overall capital gain	$3,000	-	-	-	?
Overall losses	-			($3,250)	?
Carryback/forward - 2014 losses	(3,000)	-	-	-	($250)

The corporation had no capital asset transactions in 2012 and 2013. The process for reporting the 2014 net capital loss of $3,250 is:

Step 1: The corporation may use $3,000 of the $3,250 capital loss carryback to offset the $3,000 capital gain reported on its 2011 return. This entitles it to a refund of the tax originally paid on the $3,000 capital gain. The corporation is then left with $250 of unused capital loss carryback.

Step 2: The corporation can then apply the remaining $250 capital loss carryback to 2012. However, in this case, the corporation had no capital gain income in 2012. Therefore, the $250 loss cannot be used to offset 2012 capital gain.

Step 3: The corporation can carry the unused $250 capital loss carryback to 2013. Again, the corporation had no capital gain income in 2013. Therefore, the loss cannot be used to offset 2013 capital gain.

Step 4: The remaining $250 can be carried forward to 2015 and reported as a short-term capital loss on line 6 of Schedule D. The corporation should attach a computation of the capital loss carryforward, indicating the amount of the carryforward and the year of origination.

If the corporation does not have at least $250 of capital gain in 2014, it may carry the unused loss to 2015. The carryforward may continue for a five-year period. If the corporation does not have sufficient capital gain to use the $250 loss by the end of 2019, the carryforward will expire unused, and the loss will be permanently nondeductible.

Exhibit 3-4
Line 6 of Schedule D

3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked		
4 Short-term capital gain from installment sales from Form 6252, line 26 or 37	4	
5 Short-term capital gain or (loss) from like-kind exchanges from Form 8824	5	
6 Unused capital loss carryover (attach computation)	6	
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column h	7	

Part II **Long-Term Capital Gains and Losses — Assets Held More Than One Year**

Summary. Corporations report sales and exchanges of capital assets on Schedule D (Form 1120). Schedule D divides capital gains and losses into two categories: short-term and long-term-depending on the length of the asset's holding period. If a corporation's capital gains exceed its capital losses, it includes the net overall capital gain in the calculation of its total income. If the capital losses exceed the capital gains, the net overall capital loss is not deductible on the current year return. However, the corporation may use the net overall capital loss to offset capital gains during the three-year carryback and five-year carryforward periods.

4 Gross Income And Sale Of Business Property

So far, we have studied how the corporation is set up, the importance of being incorporated, the most important transactions of its capital, and the capital gain and losses. The material so far has given you a big picture of what the corporation is about. Now we'll study the most important parts of Form 1120; beginning with the gross income and then the sale of business property.

GROSS INCOME

As a general rule, all income received by a corporation is taxable, including gross income from:

- Business activities;
- Investment income; and
- Gains from property transactions.

The first 10 lines of Form 1120 are used to report a corporation's income. In addition, the IRS requires supplemental schedules that provide backup detail for several types of income. This chapter discusses business income, investment income and gains and losses from property transactions. Refer to the first lines of Form 1120 (page 1) below as you study the material in this chapter.

Exhibit 4-1

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return
For calendar year 2014 or tax year beginning ______, 2014, ending ______, 20 ____
▶ Information about Form 1120 and its separate instructions is at *www.irs.gov/form1120.*

OMB No. 1545-0123
2014

A Check if:	TYPE OR PRINT		
1a Consolidated return (attach Form 851) ☐		Name	B Employer identification number
b Life/nonlife consolidated return ☐		Number, street, and room or suite no. If a P.O. box, see instructions.	C Date incorporated
2 Personal holding co. (attach Sch. PH) ☐		City or town, state, or province, country and ZIP or foreign postal code	D Total assets (see instructions)
3 Personal service corp. (see instructions) ☐			$
4 Schedule M-3 attached ☐	E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change		

Income				
1a	Gross receipts or sales	1a		
b	Returns and allowances	1b		
c	Balance. Subtract line 1b from line 1a		1c	
2	Cost of goods sold (attach Form 1125-A)		2	
3	Gross profit. Subtract line 2 from line 1c		3	
4	Dividends (Schedule C, line 19)		4	
5	Interest		5	
6	Gross rents		6	
7	Gross royalties		7	
8	Capital gain net income (attach Schedule D (Form 1120))		8	
9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9	
10	Other income (see instructions—attach statement)		10	
11	**Total income.** Add lines 3 through 10 ▶		11	

Sample of Form 4797 (2/2)

Part III **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

Part III is used only to report gains from the sale of depreciable assets.

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A		
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20				
21 Cost or other basis plus expense of sale	21				
22 Depreciation (or depletion) allowed or allowable	22				
23 Adjusted basis. Subtract line 22 from line 21	23				
24 Total gain. Subtract line 23 from line 20	24				
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a				
b Enter the **smaller** of line 24 or 25a	25b				
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the **smaller** of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the **smaller** of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a				
b Enter the **smaller** of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the **smaller** of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation (see instructions)	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

Form **4797** (2014)

Form 4797 For Oak Corporation (2/2)

Form **4797** (2014) Oak Corporation 59-1111111 Page **2**

Part III **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo, day, yr)	(c) Date sold (mo, day, yr)
A Automobile	04/22/11	03/07/14
B Condo-Building	07/12/04	09/10/14
C Equipment	02/15/09	06/04/14
D		

These columns relate to the properties on lines 19A through 19D ►		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20	8,500.	71,250.	1,000.	
21 Cost or other basis plus expense of sale	21	15,600.	66,500.	8,700.	
22 Depreciation (or depletion) allowed or allowable	22	8,859.	22,260.	8,700.	
23 Adjusted basis. Subtract line 22 from line 21	23	6,741.	44,240.	0.	
24 Total gain. Subtract line 23 from line 20	24	1,759.	27,010.	1,000.	= $29,769
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25 a	8,859.		8,700.	
b Enter the **smaller** of line 24 or 25a	25 b	1,759.		1,000.	
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.		(1)		(1)	
a Additional depreciation after 1975 (see instrs)	26 a		0.		
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26 b				
c Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26 c		27,010.		
d Additional depreciation after 1969 & before 1976	26 d				
e Enter the **smaller** of line 26c or 26d	26 e		0.		
f Section 291 amount (corporations only)	26f		4,452.		
g Add lines 26b, 26e, and 26f	26 g		4,452.		
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).			(1)		
a Soil, water, and land clearing expenses	27 a				
b Line 27a multiplied by applicable percentage (see instructions)	27 b				
c Enter the **smaller** of line 24 or 27b	27 c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a				
b Enter the **smaller** of line 24 or 28a	28 b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29 a				
b Enter the **smaller** of line 24 or 29a (see instrs)	29 b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	29,769
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13 (1) = $7,211	31	7,211
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	22,558

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation (see instructions)	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

BAA FDIZ1002 06/24/14 Form **4797** (2014)

5 Business Expenses

Here is a common question, how much was spent in operating the corporation's business? Qualifying expenses include administrative fees, salaries, advertising, utilities and other operational expenses. The corporation adds all the expense accounts in the income statements to get a total. Most corporate deductions are authorized by one of four major IRC sections:

- Section 162-Trade or Business Expenses;
- Section 163-Interest;
- Section 164-Taxes; or
- Section 167-Depreciation.

Many corporations also deduct bad debts (Section 166), charitable contributions (Section 170), and contributions to qualified retirement plans (Section 404).

This chapter discusses most of the deductible business expenses under Section 162, except for three that are discussed in separate sections of this Mini-course: Cost of Goods Sold (Chapter 9), Business Travel, Entertainment and Gifts (Chapter 6), and Qualified Retirement and Employee Benefit Plans (Chapter 10). Deductions authorized by IRC sections other than Section 162 are discussed later in this Mini-Course.

DEFINING TRADE OF BUSINESS EXPENSES

A corporation may deduct the "ordinary and necessary" expenses that it pays (cash-basis) or incurs (accrual-basis) during the tax year to carry on its business. An "ordinary" expense is one that is "common and accepted," and a "necessary" expense is one that is "helpful and appropriate" in the corporation's line of business.

In addition, the IRS and the courts frequently apply an overall test of "reasonableness," by evaluating whether the expense is reasonable in both nature and amount, given a particular business situation. In general, expenses that are commonly incurred, helpful, and reasonable in the corporation's line of business are deductible.

BUSINESS EXPENSES ON FORM 1120

Form 1120 reserves several line items for the most commonly encountered business expenses (Exhibit 5-1).

Exhibit 5-1
Form 1120, Lines 12-29

Deductions (See instructions for limitations on deductions.)

12	Compensation of officers (see instructions—attach Form 1125-E) ▶		12	
13	Salaries and wages (less employment credits)		13	
14	Repairs and maintenance		14	
15	Bad debts		15	
16	Rents		16	
17	Taxes and licenses		17	
18	Interest		18	
19	Charitable contributions		19	
20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		20	
21	Depletion		21	
22	Advertising		22	
23	Pension, profit-sharing, etc., plans		23	
24	Employee benefit programs		24	
25	Domestic production activities deduction (attach Form 8903)		25	
26	Other deductions (attach statement)		26	
27	**Total deductions.** Add lines 12 through 26 ▶		27	
28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.		28	
29a	Net operating loss deduction (see instructions)	29a		
b	Special deductions (Schedule C, line 20)	29b		
c	Add lines 29a and 29b		29c	

8 Mid-Term Exercise

At this point you are ready to prepare a tax return for a C-Corporation. The corporation has been created for two partners in the law field; they come to you for help with income tax preparation. Note that you do not have the tax software to prepare the Form 1120 return, but you are ready to do it manually, since you have the basics for a simple corporate tax return.

This example does not let you apply all of the basic elements of a corporate return like inventory, large charitable contributions, cost of goods sold, etc. - we will discuss those topics later in this Mini-Course. Some basic information you need to know are as follows: The December 31, 2014, adjusted trial balance per the books is presented to you for Mr. A. Hadfield and Mr. G. Lopez of Southern Professional Corporation. They use a calendar-year and accrual-basis method. The notes provided in the following pages are supplemental information that is needed for Form 1120. You must be aware of this and ask your clients for these types of details; these accounts should be analyzed before the preparation of the return. As you will notice several income and deduction items are treated differently for book and tax purposes. Tax forms needed are provided for your convenience.

Southern Professional Corporation (Note 1)
Adjusted Trial Balance 12/31/14

	Debits	Credits
Cash—Checking Acct.	$ 107,750	
Accounts receivable	132,788	
Allowance for bad debts		$ 13,200
Prepaid insurance	1,220	
Office equipment	96,217	
Accumulated depreciation		30,031
Accounts payable		26,275
Short loan payable		34,000
Federal income tax payable		6.272
State income tax payable		4,800
Common stock		50,000
Income Services		1,250,000
Interest income—taxable		600
Dividend income (Note 2)		1,600
Gain on sale of stock (Note 3)		3,800
Salary—officers (Note 4)	400,000	
Salary—other	325,000	
Rent expense	45,000	
Bad debts (Note 5)	32,000	
Taxes (Note 6)	33,800	
Interest (Note 7)	5,800	
Contributions (Note 8)	6,500	
Depreciation (Note 9)	30,031	
Legal and accounting	7,000	
Utilities	14,500	
Telephone	5,200	
Insurance (Note 10)	14,300	
Advertising	12,500	
Office supplies	6,200	
Travel and entertainment (Note 11)	18,000	
Miscellaneous	700	
State income tax expense (Note 12)	29,800	
Federal income tax expense (Note 12)	96,272	
Total	$1,420,578	$1,420,578

Solutions And Explanations For Chapter 2

1. Define and discuss the corporate form of organization.

- **A corporation is a separate legal entity chartered by the state in which it is formed or, in some cases, by the federal government.**
- **The liability of corporate shareholders is usually limited to their ownership investment, whereas claims against partners and sole proprietors may extend to their personal resources.**
- **Unlike proprietorships and partnerships, corporations must report paid-in capital separately from accumulated balance of retained earnings. Distributions to shareholders are limited by the amount of retained earnings and other capital as specified by the state law.**

2. Identify and discuss the types of stock and their basic rights.

- **Common stocks represent a corporation's basic ownership class of stock.**
- **Preferred stocks may differ from common stock in any of several characteristics. Typically, preferred stocks have some type of dividend preference.**

3. Explain the accounting for treasury stock.

- **Treasury stock represents repurchased shares of the firm's own stock. It is commonly recorded at cost and deducted from total stockholders' equity in the balance. The repurchase of outstanding shares reduce the number of shares on the market. Companies will buy back shares either to increase the value of shares still available, or to eliminate any threats by shareholders who may be looking for a controlling stake.**

4. Illustrate a retained earnings statement and statement of stockholders' equity.

- **A retained earnings statement represents the events causing retained earnings to change during an accounting period.**
- **A statement of stockholders' equity presents the events causing each component of stockholders's equity (including retained earnings) to change during an accounting period.**

5. Goodwin Corporation has outstanding 6,000 shares of $50 par value, 5% preferred stock and 30,000 shares of $30 par value common stock. This year the company declares and pays a total cash dividend of $90,000. The total income for the year before the deductions of dividend is $450,000 Show how this situation is reported in Schedule L of Form 1120.

Completed Form of Liability and Shareholder's Equity

$450,000 - $90,000 = $$360,000

Liabilities and Shareholders' Equity				
16 Accounts payable				
17 Mortgages, notes, bonds payable in less than 1 year				
18 Other current liabilities (attach statement)				
19 Loans from shareholders				
20 Mortgages, notes, bonds payable in 1 year or more				
21 Other liabilities (attach statement)				
22 Capital stock: a Preferred stock	300,000			
b Common stock	900,000			
23 Additional paid-in capital				
24 Retained earnings—Appropriated (attach statement)		360,000		
25 Retained earnings—Unappropriated				
26 Adjustments to shareholders' equity (attach statement)				
27 Less cost of treasury stock		( )		( )
28 Total liabilities and shareholders' equity		1,560,000		