

Chapter 10 Problem 74

Corporate Tax Return Problem Solution – Part A

Note to Instructor: Part A requires the completion of pre-tax financial statements. This requirement may only be appropriate for accounting majors. You may wish to provide these statements to your students if you expect them to complete only the tax return in Part B.

Part A: Following are the before-tax financial accounting income statement and balance sheet for Snap-It-Open Corporation as of December 31, 2015

Snap-It-Open Corporation
Income Statement
For the Year Ending December 31, 2015

Sales Revenue		\$1,935,000
Cost of Goods Sold (1)		<u>528,000</u>
Gross Profit on Sales		\$1,407,000
Expenses:		
Salaries and Wages	\$186,000	
FICA/FUTA (2)	25,698	
Rent	240,000	
Repairs and Maintenance	20,000	
Utilities	80,000	
Taxes and Licenses (excluding FICA and FUTA taxes)	10,000	
Health Insurance	16,000	
Advertising	40,000	
Travel (excluding meals)	20,000	
Meals and Entertainment	15,000	
Group Term Life Insurance	2,000	
Depreciation (3)	100,000	
Interest Expense	57,500	
Bad Debt Expense (4)	<u>38,700</u>	
Total Expenses		<u>850,898</u>
Net Income Before Tax		\$556,102

(1) Cost of Goods Sold:

Beginning Inventory		0
+ Purchases	\$560,000	
- Purchase Returns	(5,000)	
- Ending Inventory	(33,000)	
+ Factory Salaries	<u>106,000</u>	
Cost of Goods		\$528,000

(2) FICA = \$292,000 x .0765 = \$22,338

FUTA = 8 x \$7,000 x .06 = 3,360

 Total \$25,698

(3) Depreciation: (\$500,000 x .10) + (\$400,000 x .125) = \$100,000

Taxation for Decision Makers Tax Return Problem Solutions

(4) Bad Debt Expense: $.02 \times \$1,935,000 = \$38,700$

Snap-It-Open Corporation Balance Sheet December 31, 2015

Current Assets:

Cash		\$424,302
Accounts Receivable	\$505,000	
Less: Allowance for Bad Debts	<u>38,700</u>	466,300
Tax Deposits		40,000
Inventory		<u>133,000</u>
Total Current Assets		\$1,063,602

Long-Term Assets:

Machinery	\$900,000	
Less: Accumulated Depreciation	<u>100,000</u>	<u>\$800,000</u>
Total Assets		<u>\$1,863,602</u>

Current Liabilities:

Interest Payable		\$ 57,500
Current Portion of Long-term Note Payable		<u>100,000</u>
Total Current Liabilities		<u>\$157,500</u>

Long-term Liabilities

Note Payable		<u>650,000</u>
Total Liabilities		\$807,500

Stockholder Equity:

Common Stock	\$100,000	
Paid-in Capital	400,000	
Retained Earnings	<u>556,102</u>	<u>1,056,102</u>
Total Liabilities and Equities		<u>\$1,863,602</u>