

# Table of Contents

|                                                 |           |
|-------------------------------------------------|-----------|
| <b>Bookkeeping and Accounting Methods .....</b> | <b>1</b>  |
| Accounting method .....                         | 1         |
| Cash vs. accrual .....                          | 2         |
| Accounting terms.....                           | 7         |
| Making a journal entry .....                    | 9         |
| Accounting equation.....                        | 10        |
| Assets.....                                     | 10        |
| Liabilities .....                               | 11        |
| Capital or equity and retained earnings.....    | 12        |
| Trial balance .....                             | 15        |
| Income statement .....                          | 16        |
| Closing revenue and expense accounts.....       | 17        |
| Balance sheet .....                             | 18        |
| <b>Income and Expenses .....</b>                | <b>24</b> |
| Income .....                                    | 24        |
| Expenses .....                                  | 27        |
| Personal vs. business expenses.....             | 28        |
| Deductible business expenses .....              | 28        |
| Capital expenses.....                           | 36        |
| Cost of goods sold .....                        | 43        |
| <b>Fixed Assets and Depreciation .....</b>      | <b>55</b> |
| Depreciation.....                               | 55        |
| Depreciation elements .....                     | 56        |
| Depreciable basis.....                          | 56        |
| Placed-in-service date.....                     | 57        |
| MACRS depreciation.....                         | 57        |
| Asset class.....                                | 58        |
| Depreciation methods .....                      | 60        |

|                                                                  |           |
|------------------------------------------------------------------|-----------|
| Conventions.....                                                 | 63        |
| <b>Short-year depreciation .....</b>                             | <b>68</b> |
| General information .....                                        | 68        |
| Fiscal years .....                                               | 69        |
| Depreciation methods .....                                       | 69        |
| Half-year convention .....                                       | 69        |
| Mid-quarter convention .....                                     | 71        |
| Prorating depreciation between shareholder and corporation ..... | 72        |
| <b>Repair vs. improvement.....</b>                               | <b>74</b> |
| Costs of acquiring or producing tangible property .....          | 74        |
| Improving property .....                                         | 75        |
| Materials and supplies.....                                      | 77        |
| <b>Listed property.....</b>                                      | <b>78</b> |
| Vehicles .....                                                   | 80        |
| <b>Section 280F recapture .....</b>                              | <b>83</b> |
| Calculating listed property recapture .....                      | 83        |
| <b>Section 179 expensing election.....</b>                       | <b>85</b> |
| Qualifying property .....                                        | 86        |
| Business income limitation .....                                 | 89        |
| Carryover .....                                                  | 92        |
| Amending or revoking §179 deduction.....                         | 92        |
| <b>Section 179 recapture.....</b>                                | <b>92</b> |
| Calculating the recapture amount.....                            | 93        |
| <b>Bonus depreciation.....</b>                                   | <b>93</b> |
| Qualifying property .....                                        | 94        |
| Acquisition requirements .....                                   | 95        |
| Placed-in-service period.....                                    | 96        |
| Claiming bonus depreciation .....                                | 97        |
| Electing out of bonus depreciation .....                         | 97        |

|                                       |            |
|---------------------------------------|------------|
| Alternative minimum tax .....         | 98         |
| Computing AMT depreciation.....       | 98         |
| Form 4562.....                        | 100        |
| <b>Entity Selection .....</b>         | <b>107</b> |
| Limited liability companies .....     | 107        |
| Default rules .....                   | 108        |
| Electing classification .....         | 108        |
| Advantages.....                       | 108        |
| Disadvantages .....                   | 109        |
| Partnerships.....                     | 109        |
| Advantages.....                       | 109        |
| Disadvantages .....                   | 110        |
| S corporations .....                  | 110        |
| Advantages.....                       | 111        |
| Disadvantages .....                   | 111        |
| C corporations .....                  | 112        |
| Advantages.....                       | 112        |
| Disadvantages .....                   | 113        |
| <b>Partnerships.....</b>              | <b>118</b> |
| Formation.....                        | 118        |
| Basic partnership .....               | 118        |
| Partnership agreement.....            | 118        |
| Contributions .....                   | 121        |
| Tax year .....                        | 128        |
| Filing requirements .....             | 135        |
| Exclusion from partnership rules..... | 135        |
| Engagement letter .....               | 136        |
| Form 1065.....                        | 136        |
| Heading .....                         | 136        |
| Income.....                           | 138        |

|                                                                           |            |
|---------------------------------------------------------------------------|------------|
| Deductions.....                                                           | 141        |
| Ordinary business income (loss) .....                                     | 151        |
| Schedule B—Other Information.....                                         | 152        |
| Schedule L—Balance Sheets Per Books.....                                  | 162        |
| Schedule M-1 .....                                                        | 166        |
| Schedule M-2 .....                                                        | 170        |
| Schedule M-3 .....                                                        | 171        |
| <b>Schedules K and K-1 .....</b>                                          | <b>172</b> |
| Schedule K .....                                                          | 172        |
| Schedule K-1 – Partner’s Share of Income, Deductions, Credits, etc... 175 |            |
| <b>Filing the return.....</b>                                             | <b>222</b> |
| Signing the return.....                                                   | 222        |
| When to file .....                                                        | 222        |
| Electronic filing .....                                                   | 224        |
| Where to file.....                                                        | 224        |
| Amended return .....                                                      | 225        |
| Comprehensive example .....                                               | 226        |
| <b>S Corporations.....</b>                                                | <b>232</b> |
| Eligible corporations .....                                               | 232        |
| Number of shareholders.....                                               | 233        |
| Eligible shareholders.....                                                | 235        |
| One class of stock .....                                                  | 236        |
| Ineligible corporations .....                                             | 240        |
| <b>S election .....</b>                                                   | <b>240</b> |
| Shareholder consent .....                                                 | 240        |
| Due date .....                                                            | 241        |
| Completing Form 2553 .....                                                | 243        |
| Inadvertent invalid election .....                                        | 248        |

|                                            |            |
|--------------------------------------------|------------|
| Late S election .....                      | 249        |
| Rev. Proc. 2013-30 .....                   | 249        |
| Procedural requirements .....              | 250        |
| Private letter ruling.....                 | 251        |
| Form 1120-S.....                           | 251        |
| Tax year .....                             | 251        |
| Heading .....                              | 257        |
| Income.....                                | 259        |
| Deductions.....                            | 260        |
| Tax and payments.....                      | 265        |
| Schedule B – Other Information .....       | 269        |
| Schedules K and K-1 .....                  | 273        |
| Schedule L – Balance Sheet per Books ..... | 286        |
| Schedule M-1– Book vs. Tax.....            | 289        |
| Schedule M-2—AAA, PTI, AE&P, OAA .....     | 289        |
| Schedule M-3 .....                         | 294        |
| Completing the return .....                | 295        |
| Comprehensive example.....                 | 298        |
| <b>C Corporations.....</b>                 | <b>316</b> |
| Incorporating.....                         | 316        |
| Exchanging cash for stock .....            | 317        |
| Exchanging property for stock.....         | 317        |
| Exchanging services for stock .....        | 326        |
| Summary .....                              | 326        |
| Completing Form 1120 .....                 | 327        |
| Tax year .....                             | 327        |
| Accounting method.....                     | 327        |
| Heading .....                              | 329        |
| Income.....                                | 331        |
| Form 1125-A – Cost of Goods Sold .....     | 334        |

|                                                                                             |            |
|---------------------------------------------------------------------------------------------|------------|
| <b>Deductions .....</b>                                                                     | <b>334</b> |
| Refundable credits and payments .....                                                       | 353        |
| Schedule K – Other Information.....                                                         | 361        |
| Schedule L – Balance Sheets per Books .....                                                 | 367        |
| Schedule M-1– Reconciliation of Income (Loss) per Books<br>With Income per Return .....     | 370        |
| Schedule M-2 – Analysis of Unappropriated Retained<br>Earnings per Books .....              | 371        |
| <b>Completing the return.....</b>                                                           | <b>372</b> |
| Electronic filing .....                                                                     | 372        |
| Signing the return.....                                                                     | 372        |
| Refund.....                                                                                 | 373        |
| Paying the tax .....                                                                        | 373        |
| When to file.....                                                                           | 375        |
| Where to file.....                                                                          | 376        |
| Assembling the return .....                                                                 | 377        |
| <b>Distributions.....</b>                                                                   | <b>378</b> |
| Taxation of distributions.....                                                              | 378        |
| Comprehensive example .....                                                                 | 380        |
| <b>Appendix .....</b>                                                                       | <b>390</b> |
| Appendix A: entity comparison chart .....                                                   | 391        |
| Appendix B: example engagement letter .....                                                 | 394        |
| Appendix C: sample partnership agreement .....                                              | 396        |
| Appendix D: codes for principal business activity<br>and principal product or service ..... | 406        |
| Appendix E: partnership comprehensive example solution .....                                | 409        |
| Appendix F: S corporation comprehensive example solution.....                               | 424        |
| Appendix G: C corporation comprehensive example solution .....                              | 436        |
| <b>Index.....</b>                                                                           | <b>447</b> |