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Chapter 2

Problem 1 - Pet Kingdom Form 1120 Corporate Tax Return

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2011 or tax year beginning _____, ending _____ ▶ See separate instructions.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold;">2011</div>
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input checked="" type="checkbox"/>	NAME OR PRINT Name Pet Kingdom, Inc. Number, street, and room or suite no. If a P.O. box, see instructions. 1010 Northwest Parkway City or town State ZIP code Dallas TX 75255	B Employer identification number 11-1111111 C Date incorporated 11/1/2005 D Total assets (see instructions) \$ 12,900,445
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		
Income	1a Merchant card and third-party payments. For 2011, enter -0- 1a 0 b Gross receipts or sales not reported on line 1a (see instructions) 1b 6,900,000 c Total. Add lines 1a and 1b 1c 6,900,000 d Returns and allowances plus any other adjustments (see instructions) 1d 240,000 e Subtract line 1d from line 1c 1e 6,660,000 2 Cost of goods sold from Form 1125-A, line 8 (attach Form 1125-A) 2 2,760,000 3 Gross profit. Subtract line 2 from line 1e 3 3,900,000 4 Dividends (Schedule C, line 19) 4 52,500 5 Interest 5 24,000 6 Gross rents 7 Gross royalties 8 Capital gain net income (attach Schedule D (Form 1120)) 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 10 Other income (see instructions—attach schedule) 11 Total income. Add lines 3 through 10 11 3,976,500	Deductions (See instructions for limitations on deductions.) 12 Compensation of officers from Form 1125-E, line 4 (attach Form 1125-E) 12 630,000 13 Salaries and wages (less employment credits) 13 870,000 14 Repairs and maintenance 14 168,000 15 Bad debts 15 16 Rents 16 129,000 17 Taxes and licenses 17 285,000 18 Interest 18 261,000 19 Charitable contributions 19 45,000 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 165,000 21 Depletion 21 22 Advertising 22 69,000 23 Pension, profit-sharing, etc., plans 23 24 Employee benefit programs 24 72,000 25 Domestic production activities deduction (attach Form 8903) 25 26 Other deductions (attach schedule) 26 27 Total deductions. Add lines 12 through 26 27 2,694,000 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 28 1,282,500 29a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 20) 29b 36,750 c Add lines 29a and 29b 29c 36,750
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28 (see instructions) 30 1,245,750 31 Total tax (Schedule J, Part I, line 11) 31 423,555 32 Total payments and refundable credits (Schedule J, Part II, line 21) 32 428,000 33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/> 33 34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed 34 0 35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid 35 4,445 36 Enter amount from line 35 you want: Credited to 2012 estimated tax 36 4,445	Refunded
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.		
Sign Here	Signature of officer _____ Date _____ Title _____	
Paid Preparer Use Only	Print/Type preparer's name _____ Preparer's signature _____ Date _____ Firm's name _____ Firm's EIN _____ Firm's address _____ Phone no. _____ City _____ State _____ ZIP code _____	
For Paperwork Reduction Act Notice, see separate instructions.		

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Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)	52,500	70	36,750
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	0
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	0
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	0
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	0
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	0
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	0
8	Dividends from wholly owned foreign subsidiaries		100	0
9	Total. Add lines 1 through 8. See instructions for limitation			36,750
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	0
11	Dividends from affiliated group members		100	0
12	Dividends from certain FSCs		100	0
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 ▶	52,500		
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			36,750

Form 1120 (2011)

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Schedule J Tax Computation and Payment (see instructions)**Part I—Tax Computation**

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>	
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	2 423,555
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4 423,555
5a	Foreign tax credit (attach Form 1118)	5a	
5b	Credit from Form 8834, line 30 (attach Form 8834)	5b	
5c	General business credit (attach Form 3800)	5c	
5d	Credit for prior year minimum tax (attach Form 8827)	5d	
5e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e	6	0
7	Subtract line 6 from line 4	7	423,555
8	Personal holding company tax (attach Schedule PH (Form 1120))	8	
9a	Recapture of investment credit (attach Form 4255)	9a	
9b	Recapture of low-income housing credit (attach Form 8611)	9b	
9c	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	9c	
9d	Interest due under the look-back method—income forecast method (attach Form 8866)	9d	
9e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
9f	Other (see instructions—attach schedule)	9f	
10	Total. Add lines 9a through 9f	10	0
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31	11	423,555

Part II—Payments and Refundable Credits

12	2010 overpayment credited to 2011	12	
13	2011 estimated tax payments	13	428,000
14	2011 refund applied for on Form 4466	14	()
15	Combine lines 12, 13, and 14	15	428,000
16	Tax deposited with Form 7004	16	
17	Withholding (see instructions)	17	
18	Total payments. Add lines 15, 16, and 17	18	428,000
19a	Refundable credits from: Form 2439	19a	
19b	Form 4136	19b	
19c	Form 3800, line 17c and Form 8827, line 8c	19c	
19d	Other (attach schedule—see instructions)	19d	
20	Total credits. Add lines 19a through 19d	20	0
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	428,000

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. ▶ 453910		
b	Business activity ▶ Retail Trade		
c	Product or service ▶ Pet and Pet Supplies Store		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? If "Yes," enter name and EIN of the parent corporation ▶ _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)	X	

Form 1120 (2011)

Form 1120 (2011) Pet Kingdom, Inc.

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Schedule K Other Information *continued* (see instructions)**5** At the end of the tax year, did the corporation:

- a** Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on **Form 851**, Affiliations Schedule? For rules of constructive ownership, see instructions.

If "Yes," complete (i) through (iv) below.

		Yes	No
			X
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

- b** Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions.

If "Yes," complete (i) through (iv) below.

			X
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

- 6** During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)

If "Yes," file **Form 5452**, Corporate Report of Nondividend Distributions.

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

- 7** At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock?

For rules of attribution, see section 318. If "Yes," enter:

(i) Percentage owned ▶ and (ii) Owner's country ▶

(c) The corporation may have to file **Form 5472**, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶

- 8** Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐

If checked, the corporation may have to file **Form 8281**, Information Return for Publicly Offered Original Issue Discount Instruments.

- 9** Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ 18,000

- 10** Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 2

- 11** If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ ☐

If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

- 12** Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$

- 13** Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? ▶ X

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ \$

- 14** Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? ▶ X

If "Yes," complete and attach Schedule UTP.

- 15a** Did the corporation make any payments in 2011 that would require it to file Form(s) 1099 (see instructions)? ▶ X

- b** If "Yes," did or will the corporation file all required Forms 1099? ▶ X

Form **1120** (2011)

Form 1120 (2011)

Pet Kingdom, Inc.

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		1,056,000		748,000
2a	Trade notes and accounts receivable	1,815,000		2,021,000	
b	Less allowance for bad debts	()	1,815,000	()	2,021,000
3	Inventories		3,300,000		3,636,000
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)		330,000		330,000
6	Other current assets (attach schedule)		385,000		389,445
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)		990,000		990,000
10a	Buildings and other depreciable assets	4,805,000		4,805,000	
b	Less accumulated depreciation	(727,000)	4,078,000	(847,000)	3,958,000
11a	Depletable assets				
b	Less accumulated depletion	()	0	()	0
12	Land (net of any amortization)		715,000		715,000
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()	0	()	0
14	Other assets (attach schedule)		123,000		113,000
15	Total assets		12,792,000		12,900,445
Liabilities and Shareholders' Equity					
16	Accounts payable		2,035,000		1,837,000
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach schedule)		213,000		184,000
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more		4,550,000		4,322,000
21	Other liabilities (attach schedule)				
22	Capital stock: a Preferred stock				
	b Common stock	3,000,000	3,000,000	3,000,000	3,000,000
23	Additional paid-in capital				
24	Retained earnings—Appropriated (attach schedule)				
25	Retained earnings—Unappropriated		2,994,000		3,557,445
26	Adjustments to shareholders' equity (attach schedule)				
27	Less cost of treasury stock		()		()
28	Total liabilities and shareholders' equity		12,792,000		12,900,445

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

1	Net income (loss) per books		7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books			Tax-exempt interest \$	
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):	0			0
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$	
b	Charitable contributions \$		b	Charitable contributions \$	
c	Travel and entertainment \$				0
		0	9	Add lines 7 and 8	0
6	Add lines 1 through 5	0	10	Income (page 1, line 28)—line 6 less line 9	0

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	2,994,000	5	Distributions: a Cash	300,000
2	Net income (loss) per books	863,445		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
		0	7	Add lines 5 and 6	300,000
4	Add lines 1, 2, and 3	3,857,445	8	Balance at end of year (line 4 less line 7)	3,557,445

Form 1120 (2011)

Form 1125-A (December 2011) Department of the Treasury Internal Revenue Service	Cost of Goods Sold ► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, and 1065-B.	OMB No. 1545-2225
Name Pet Kingdom, Inc.		Employer identification number 11-1111111
1 Inventory at beginning of year 2 Purchases 3 Cost of labor 4 Additional section 263A costs (attach schedule) 5 Other costs (attach schedule) 6 Total. Add lines 1 through 5 7 Inventory at end of year 8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	1 2 3 4 5 6 7 8	3,300,000 3,096,000 6,396,000 3,636,000 2,760,000
9 a Check all methods used for valuing closing inventory: (i) <input type="checkbox"/> Cost (ii) <input checked="" type="checkbox"/> Lower of cost or market (iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ►		
b Check if there was a writedown of subnormal goods ► <input type="checkbox"/>		
c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ► <input type="checkbox"/>		
d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO 9d		
e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		

**SCHEDULE G
(Form 1120)**(Rev. December 2011)
Department of the Treasury
Internal Revenue Service**Information on Certain Persons Owning the
Corporation's Voting Stock**▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No.1545-0123

Name	Employer identification number (EIN)
Pet Kingdom, Inc.	11-1111111

Part I **Certain Entities Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II **Certain Individuals and Estates Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
Janet Morton	123-45-6789	United States	50.000%
Kim Wong	987-65-4321	United States	50.000%

For Paperwork Reduction Act Notice,
see the Instructions for Form 1120.
(HTA)

Schedule G (Form 1120) (Rev. 12-2011)

**SCHEDULE M-3
(Form 1120)**Department of the Treasury
Internal Revenue Service**Net Income (Loss) Reconciliation for Corporations
With Total Assets of \$10 Million or More**

▶ Attach to Form 1120 or 1120-C.

▶ See separate instructions.

OMB No. 1545-0123

2011

Name of corporation (common parent, if consolidated return)

Pet Kingdom, Inc.

Employer identification number

11-1111111

Check applicable box(es):

(1) ☒

Non-consolidated return

(2) ☐

Consolidated return (Form 1120 only)

(3) ☐

Mixed 1120/L/PC group

(4) ☐

Dormant subsidiaries schedule attached

Part I**Financial Information and Net Income (Loss) Reconciliation** (see instructions)**1a** Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.☒ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.**b** Did the corporation prepare a certified audited non-tax-basis income statement for that period?☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.☒ **No.** Go to line 1c.**c** Did the corporation prepare a non-tax-basis income statement for that period?☒ **Yes.** Complete lines 2a through 11 with respect to that income statement.☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.**2a** Enter the income statement period: Beginning 1/1/2011 Ending 12/31/2011**b** Has the corporation's income statement been restated for the income statement period on line 2a?☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)☒ **No.****c** Has the corporation's income statement been restated for any of the five income statement periods preceding the period on line 2a?☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)☒ **No.****3a** Is any of the corporation's voting common stock publicly traded?☐ **Yes.**☒ **No.** If "No," go to line 4a.**b** Enter the symbol of the corporation's primary U.S. publicly traded voting common stock**c** Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock**4a** Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1**4a** 863,445**b** Indicate accounting standard used for line 4a (see instructions):(1) ☐ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify) _____**5a** Net income from nonincludible foreign entities (attach schedule)**5a** ()**b** Net loss from nonincludible foreign entities (attach schedule and enter as a positive amount)**5b** ()**6a** Net income from nonincludible U.S. entities (attach schedule)**6a** ()**b** Net loss from nonincludible U.S. entities (attach schedule and enter as a positive amount)**6b** ()**7a** Net income (loss) of other includible foreign disregarded entities (attach schedule)**7a** ()**b** Net income (loss) of other includible U.S. disregarded entities (attach schedule)**7b** ()**c** Net income (loss) of other includible entities (attach schedule)**7c** ()**8** Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach schedule)**8** ()**9** Adjustment to reconcile income statement period to tax year (attach schedule)**9** ()**10a** Intercompany dividend adjustments to reconcile to line 11 (attach schedule)**10a** ()**b** Other statutory accounting adjustments to reconcile to line 11 (attach schedule)**10b** ()**c** Other adjustments to reconcile to amount on line 11 (attach schedule)**10c** ()**11** **Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10**11** 863,445**Note.** Part I, line 11, must equal the amount on Part II, line 30, column (a), and Schedule M-2, line 2.**12** Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

	Total Assets	Total Liabilities
a Included on Part I, line 4 ▶	12,900,445	6,343,000
b Removed on Part I, line 5 ▶		
c Removed on Part I, line 6 ▶		
d Included on Part I, line 7 ▶		

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

(HTA)

Schedule M-3 (Form 1120) 2011

Schedule M-3 (Form 1120) 2011

Page **2**

Name of corporation (common parent, if consolidated return)

Employer identification number

Pet Kingdom, Inc.

11-1111111

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC groupCheck if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)

	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
Income (Loss) Items (Attach schedules for lines 1 through 11)				
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed				
3 Subpart F, QEF, and similar income inclusions				
4 Section 78 gross-up				
5 Gross foreign distributions previously taxed				
6 Income (loss) from equity method U.S. corporations				
7 U.S. dividends not eliminated in tax consolidation				
8 Minority interest for includible corporations				
9 Income (loss) from U.S. partnerships				
10 Income (loss) from foreign partnerships				
11 Income (loss) from other pass-through entities				
12 Items relating to reportable transactions (attach details)				
13 Interest income (attach Form 8916-A)	42,000		(18,000)	24,000
14 Total accrual to cash adjustment				
15 Hedging transactions				
16 Mark-to-market income (loss)				
17 Cost of goods sold (attach Form 8916-A)	(2,760,000)			(2,760,000)
18 Sale versus lease (for sellers and/or lessors)				
19 Section 481(a) adjustments				
20 Unearned/deferred revenue				
21 Income recognition from long-term contracts				
22 Original issue discount and other imputed interest				
23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
b Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e Abandonment losses				
f Worthless stock losses (attach details)				
g Other gain/loss on disposition of assets other than inventory				
24 Capital loss limitation and carryforward used				
25 Other income (loss) items with differences (attach schedule)				
26 Total income (loss) items. Combine lines 1 through 25	(2,718,000)	0	(18,000)	(2,736,000)
27 Total expense/deduction items (from Part III, line 38)	(908,055)	(45,000)	482,055	(471,000)
28 Other items with no differences	4,489,500			4,489,500
29a Mixed groups, see instructions. All others, combine lines 26 through 28	863,445	(45,000)	464,055	1,282,500
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	863,445	(45,000)	464,055	1,282,500

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

Schedule M-3 (Form 1120) 2011

Schedule M-3 (Form 1120) 2011

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Name of corporation (common parent, if consolidated return)

Employer identification number

Pet Kingdom, Inc.

11-1111111

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC groupCheck if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items (see instructions)

Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 U.S. current income tax expense	423,555		(423,555)	
2 U.S. deferred income tax expense				
3 State and local current income tax expense				
4 State and local deferred income tax expense				
5 Foreign current income tax expense (other than foreign withholding taxes)				
6 Foreign deferred income tax expense				
7 Foreign withholding taxes				
8 Interest expense (attach Form 8916-A)	271,500		(10,500)	261,000
9 Stock option expense				
10 Other equity-based compensation				
11 Meals and entertainment				
12 Fines and penalties				
13 Judgments, damages, awards, and similar costs				
14 Parachute payments				
15 Compensation with section 162(m) limitation				
16 Pension and profit-sharing				
17 Other post-retirement benefits				
18 Deferred compensation				
19 Charitable contribution of cash and tangible property	45,000			45,000
20 Charitable contribution of intangible property				
21 Charitable contribution limitation/carryforward				
22 Domestic production activities deduction				
23 Current year acquisition or reorganization investment banking fees				
24 Current year acquisition or reorganization legal and accounting fees				
25 Current year acquisition/reorganization other costs				
26 Amortization/impairment of goodwill				
27 Amortization of acquisition, reorganization, and start-up costs				
28 Other amortization or impairment write-offs				
29 Section 198 environmental remediation costs				
30 Depletion				
31 Depreciation	120,000	45,000		165,000
32 Bad debt expense				
33 Corporate owned life insurance premiums	48,000		(48,000)	
34 Purchase versus lease (for purchasers and/or lessees)				
35 Research and development costs				
36 Section 118 exclusion (attach schedule)				
37 Other expense/deduction items with differences (attach schedule)				
38 Total expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive	908,055	45,000	(482,055)	471,000

Schedule M-3 (Form 1120) 2011

Form 1125-E (December 2011) Department of the Treasury Internal Revenue Service		Compensation of Officers ► Attach to Form 1120, 1120-C, 1120-F, 1120-RIC. ► See separate instructions.			OMB No. 1545-2225		
Name Pet Kingdom, Inc.					Employer identification number 11-1111111		
Note. Complete Form 1125-E only if total receipts are \$500,000 or more. See instructions for definition of total receipts.							
(a) Name of officer		(b) Social security number	(c) Percent of time devoted to business	Percent of stock owned		(f) Amount of compensation	
				(d) Common	(e) Preferred		
1	Janet Morton	123-45-6789	100.00%	50.00%	%	315,000	
	Kim Wong	987-65-4321	100.00%	50.00%	%	315,000	
			%	%	%		
			%	%	%		
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			%	%	%		
			%	%	%		
			%	%	%		
2	Total compensation of officers					2	630,000
3	Compensation of officers claimed on Form 1125-A or elsewhere on return					3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1120, page 1, line 12 or the appropriate line of your tax return					4	630,000
For Paperwork Reduction Act Notice, see separate instructions. Form 1125-E (12-2011)							

Form 8916-A Department of the Treasury Internal Revenue Service	Supplemental Attachment to Schedule M-3 ▶ Attach to Schedule M-3 for Form 1065, 1120, 1120-L, 1120-PC, or 1120S.	OMB No. 1545-2061 <div style="font-size: 2em; font-weight: bold; margin-top: 10px;">2011</div>
Name of common parent Pet Kingdom, Inc.		Employer identification number 11-1111111
Name of subsidiary		Employer identification number

Part I Cost of Goods Sold				
Cost of Goods Sold Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 Amounts attributable to cost flow assumptions . . .				
2 Amounts attributable to:				
a Stock option expense				
b Other equity based compensation				
c Meals and entertainment				
d Parachute payments				
e Compensation with section 162(m) limitation				
f Pension and profit sharing				
g Other post-retirement benefits				
h Deferred compensation				
i Section 198 environmental remediation costs				
j Amortization				
k Depletion				
l Depreciation				
m Corporate owned life insurance premiums				
n Other section 263A costs				
3 Inventory shrinkage accruals				
4 Excess inventory and obsolescence reserves				
5 Lower of cost or market write-downs				
6 Other items with differences (attach schedule)				
7 Other items with no differences	2,760,000			2,760,000
8 Total cost of goods sold. Add lines 1 through 7, in columns a, b, c, and d	2,760,000	0	0	2,760,000

For Paperwork Reduction Act Notice, see page 4. (HTA)

Form **8916-A** (2011)

Form 9916-A (2011)

Pet Kingdom, Inc.

11-1111111

Page **2****Part II Interest Income**

	Interest Income Item	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1	Tax-exempt interest income	18,000		-18,000	
2	Interest income from hybrid securities				
3	Sale/lease interest income				
4a	Intercompany interest income — From outside tax affiliated group				
4b	Intercompany interest income — From tax affiliated group				
5	Other interest income	24,000			24,000
6	Total interest income. Add lines 1 through 5. Enter total on Schedule M-3 (Forms 1120, 1120-PC, and 1120-L), Part II, line 13 or Schedule M-3 (Forms 1065 and 1120S) Part II, line 11.	42,000	0	-18,000	24,000

Part III Interest Expense

	Interest Expense Item	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1	Interest expense from hybrid securities				
2	Lease/purchase interest expense				
3a	Intercompany interest expense — Paid to outside tax affiliated group				
3b	Intercompany interest expense — Paid to tax affiliated group				
4	Other interest expense	271,500		-10,500	261,000
5	Total interest expense. Add lines 1 through 4. Enter total on Schedule M-3 (Form 1120) Part III, line 8; Schedule M-3 (Forms 1120-PC and 1120-L), Part III, line 36; Schedule M-3 (Form 1065) Part III, line 27; or Schedule M-3 (Form 1120S) Part III, line 26.	271,500	0	-10,500	261,000

Form **9916-A** (2011)

Line 6, Sch L (1120) - Other Current Assets

		Beginning	End
1 Certificates of deposit	1	385,000	385,000
2 Prepaid Federal Tax	2		4,445
3 Total other current assets	3	385,000	389,445

Line 9, Sch L (1120) - Other Investments

		Beginning	End
1 Stock Investment	1	990,000	990,000
2 Total other investments	2	990,000	990,000

Line 14, Sch L (1120) - Other Assets

		Beginning	End
1 Other Assets	1	123,000	113,000
2 Total other assets	2	123,000	113,000

Problem 2 - By the Numbers Form 1120 Corporate Tax Return

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2011 or tax year beginning _____, ending _____ ▶ See separate instructions.	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold;">2011</div>
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input checked="" type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>	<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin-right: 5px;">TYPE OR PRINT</div> <div> Name By the Numbers, Inc. Number, street, and room or suite no. If a P.O. box, see instructions. 1001 N. Main Street City or town State ZIP code Los Angeles CA 90012 </div> </div>	B Employer identification number 11-1111111 C Date incorporated 8/8/2005 D Total assets (see instructions) \$ 396,310
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		
Income	1a Merchant card and third-party payments. For 2011, enter -0- b Gross receipts or sales not reported on line 1a (see instructions) c Total. Add lines 1a and 1b d Returns and allowances plus any other adjustments (see instructions) e Subtract line 1d from line 1c	1a 0 1b 530,000 1c 530,000 1d 1e 530,000
Deductions (See instructions for limitations on deductions.)	2 Cost of goods sold from Form 1125-A, line 8 (attach Form 1125-A) 3 Gross profit. Subtract line 2 from line 1e 4 Dividends (Schedule C, line 19) 5 Interest 6 Gross rents 7 Gross royalties 8 Capital gain net income (attach Schedule D (Form 1120)) 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 10 Other income (see instructions—attach schedule) 11 Total income. Add lines 3 through 10 12 Compensation of officers from Form 1125-E, line 4 (attach Form 1125-E) 13 Salaries and wages (less employment credits) 14 Repairs and maintenance 15 Bad debts 16 Rents 17 Taxes and licenses 18 Interest 19 Charitable contributions 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 21 Depletion 22 Advertising 23 Pension, profit-sharing, etc., plans 24 Employee benefit programs 25 Domestic production activities deduction (attach Form 8903) 26 Other deductions (attach schedule) 27 Total deductions. Add lines 12 through 26 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 29a Net operating loss deduction (see instructions) b Special deductions (Schedule C, line 20) c Add lines 29a and 29b	2 530,000 3 530,000 4 5 6 7 8 9 10 11 530,000 12 250,000 13 55,000 14 8,500 15 16 4,100 17 45,470 18 12,800 19 2,000 20 22,400 21 22 19,300 23 25,000 24 16,900 25 26 55,200 27 516,670 28 13,330 29a 29b 29c 0
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28 (see instructions) 31 Total tax (Schedule J, Part I, line 11) 32 Total payments and refundable credits (Schedule J, Part II, line 21) 33 Estimated tax penalty (see instructions). Check if Form 2220 is attached 34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed 35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid 36 Enter amount from line 35 you want: Credited to 2012 estimated tax Refunded	30 13,330 31 4,666 32 5,000 33 34 0 35 334 36 334
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.		
Sign Here Signature of officer _____ Date _____ Title _____	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Paid Preparer Use Only	Print/Type preparer's name Preparer's signature Date SELF-PREPARED RETURN	
Firm's name ▶ Firm's EIN ▶ Firm's address ▶ Phone no. ▶ City State ZIP code		Check <input type="checkbox"/> if self-employed PTIN