



User's Manual Supplement

S Corporations (1120S)

Drake Software User's Manual

Tax Year 2011

**Supplement: S Corporations
(1120S)**

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S Corporations (1120S)

The basics of data entry for an S corporation (1120S) return are the same as for a 1040 return. Field- and screen-level help, shortcut keys, and navigation throughout data entry all function as they do in the 1040. See the *Drake Software User's Manual: Tax Year 2011* for the basics of using the program.

What's New in Drake for S Corporations

Drake programs its tax software according to the latest IRS rules and regulations. The 2011 program reflects all changes to credits and deductions, including discontinuations. For details on the new regulations for the 2011 tax year, see the IRS instructions for Form 1120S.

ELEC Screen Changes

The **ELEC** screen has been revised for easier, more efficient selection of various elections available to corporations. For more information on choosing elections in Drake, see "Elections" on page 34.

Ownership Changes

New in 2011, all ownership change information is entered on the **OWN** screen, which is accessible from the **General** tab of the **Data Entry Menu**. For more information, see "Ownership Changes" on page 19.

Income and Deduction Screens

The data entry screens for income and deductions have been revised for easier data entry.

Only three screens are now required in order to calculate taxable income for a return:

- **INC** — Includes all items of income reported on Form 1120S, page 1, lines 1b through 5, that do not require a separate form schedule (Form 1125-A) or addi-

tional information (income reported on Form 1065, Schedule K-1); also includes the Schedule K – Most Common Items previously included on screen **3**.

- **DED** — Includes all deduction items reported on Form 1120S, page 1, lines 7 through 19, that do not require a separate schedule or form (Form 8846).
- **4** — Includes additional tax amounts, tax payments, and data entry fields for the excess net passive income tax calculation.

Screens **3** and **TAX** have been eliminated from the 1120S package.

Multi-State Apportionment

Previously, in order to prepare a multi-state return in Drake—for a company doing business in more than one state—you had to go to each individual state's screens and enter its sales, payroll, and property factors. Drake would then calculate the apportionment factor on that state's tax form.

With the new **APPT** screen, you can enter the apportionment information for all states in one global location. The link to the **APPT** screen can be found on the **States** tab, or you enter **APPT** in the selector field and press **ENTER**. (See "Multi-State Apportionment" on page 16.)

Cost of Goods Sold (Form 1125-A)

In years past, Schedule A, Cost of Goods Sold, was located on page 2 of Form 1120S. Beginning with tax year 2011, entries on screen **A** produce a separate form, Form 1125-A, Cost of Goods Sold.

8609 Screen

The **8609** screen (for Form 8609, Low-Income Housing Credit Allocation and Certification) has been reorganized for easier data entry. Among the changes:

- Fields required for both Form 8609 and Form 8609-A are now separated on the screen from the other information fields.
- Other fields for Form 8609-A are now located in the middle of the screen.
- Other fields for Form 8609 are now located in the bottom half of the screen.
- Screen **8586** has been removed from the program. The program will generate Form 8586, Low Income Housing Credit, depending on entries made to screens **8609**, **K1P**, and **K1F**.

Schedule K Screen Changes

The screens for Schedule K, Shareholders' Pro Rata Share Items, have been changed for more efficient data entry. Changes include:

- If a form is required for a particular line, the corresponding field has been replaced with a link to the screen for the required form. For example, an entry on line 10, "Other Income," might require that Form 6781, Gains and Losses From

Section 1256 Contracts and Straddles, be completed. Rather than include a field for this line on screen **K**, the program now provides a link to screen **6781**.

- Ownership change dates, originally located on a third **K** screen, can now be found on the new **OWN** screen. For more information about the **OWN** screen, see “Ownership Changes” on page 19.

Book Depreciation Schedules

A book depreciation schedule will now be printed when the **Carry book accumulated depreciation & amortization to Schedule L** check box is marked on the **L** screen (if a **4562** screen has also be completed).

Adjustment and Override Worksheets

The Adjustment Worksheet and Override Worksheet are updated each year to help you understand what happens in the return when certain data is changed through the use of adjustment or override fields (Figure 1).

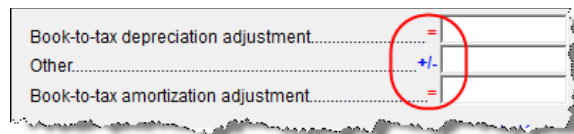


Figure 1: Adjustment (+/-) and override (=) fields

By default, fields that allow overrides are preceded by an equal sign (=) and display red text. Data entered in these fields replaces, or overrides, program calculations. Fields that allow adjustments are preceded by a plus/minus sign (+/-) and display blue text. Data in these fields adjust program calculations by the amount entered. A positive number increases the calculated amount; a negative number decreases it.

The Adjustment and Override worksheets are available through the **FAQ** screen. To access them, open the **FAQ** screen, click the **Screen Help** button (or press CTRL+ALT+?) and click the links at the top of the window.

Before You Start

Actions you might need to take before starting an 1120S return in Drake include:

- Updating a prior-year return (if you prepared the tax return last year)
- Electing as an S corporation (if the corporation was not an S corporation last year)

Updating a Prior-Year Return in Drake

A prior-year return can be updated in three ways:

- With all other returns in the program using **Last Year Data > Update Clients 2010 to 2011** (*not* recommended)
- As a single return (updated one at a time) using **Last Year Data > Update Clients 2010 to 2011** (recommended)

- When you open the return for the first time in the 2011 program and are prompted to update it

When you update an 1120S return that was previously marked as “final,” the program informs you that the return was marked final before prompting you to proceed.

Indicating an S Corporation

If the corporation is electing as an S corporation for the first time, it is necessary to indicate this in the program.

S Corp Election

On screen **1** in the **General Information** section, line **A**, enter the date of election as an S corporation. On line **E**, enter the date incorporated.

Form 2553, Election by a Small Business Corporation, is required if the entity is making the election with the return. In Drake, use screen **2553**, accessible from the **Other Forms** tab or by clicking the **Form 2553** link on screen **1**.

NOTE

If attaching a signed Form 2553 to the return as a PDF, mark the **Attaching Form 2553 as a PDF document** box on screen **1**. If not sent as a PDF, the form must be mailed separately to the IRS before filing the tax return. See Form 2553 instructions at www.irs.gov.

1120 to 1120S

To change a “C” corporation to an S corporation (1120 to 1120S):

1. Go to **Tools > File Maintenance > Change File Type**.
2. Enter the EIN of the entity.
3. Click **Continue**.
4. Select the new return type (1120S).
5. Click **Continue** to save changes.
6. Click **OK**.

Header Information

Screen **1** contains fields for the general information that is printed in the top section of page 1 of Form 1120S.

Name and Address

Use screen **1** to complete the corporation name and address section of Form 1120S. For state purposes only, if the corporation has an alternate address (such as a P.O. box), you can enter that address on screen **2**, in the **Address Line 2** field at the bottom of the screen. (Access screen **2** from the **States** tab, or enter 2 in the selector field and press ENTER.)

Tax Year

The software uses the calendar year as the default period for all corporate returns; no date entries are required on screen **1** for a December 31 tax year end.

NOTES

The program adjusts calculations for depreciation and for gains and losses on sales of assets based on the entity's tax year.

For information on filing with a 52-53-week year, see "Electing a 52-53-Week Year (Initial Return)" on page 37.

Fiscal and Calendar Years

If the S corporation uses a fiscal year (where the year begins in the current calendar year and ends in the next), specify the beginning and ending dates in the **If not calendar year** section of screen **1**.

Short-Year Returns

An entity may have a short-year return if changing accounting periods with IRS approval (Form 3115), or if this is its first or last year in business and the tax year is not a full year.

To indicate a short-year return, use the fiscal year date fields on screen **1** to indicate the beginning and ending dates for the current year. (These fields should *not* be used if the entity is filing a full calendar-year return.)

If filing a short-year return (other than an initial or final return), you will need to provide an explanation. To do so, go to the **ELEC** screen and select an explanation from the **Other short year reason** drop list. The explanation will be displayed at the top of the first page of the tax return. If you do not select an explanation, an EF message will be generated with the return, and the return cannot be e-filed.

NOTES

For more information on short-year explanations, see IRS Pub. 4163.

The program may not correctly calculate depreciation, gains, or losses for a short-year return. Depreciation for a short-year return can be entered on screen **4562** and/or screens **6**, **7**, **8**, and **9**.

Boxes A through I

Enter most information for boxes A through I (top of Form 1120S) on screen **1**. Note that boxes C ("M-3 attached") and F ("Total assets") are completed automatically by the program based on data entered elsewhere. Other boxes are:

- Box A — S election effective date
- Box B — Business activity code (From screen **1**, choose a code from the line **B** drop list, or click in the line **B** field and press CTRL+SHIFT+S to search for a code)
- Box D — Employer Identification Number (EIN) (program uses setup data as default)
- Box E — Date incorporated
- Item G — Indicates first year as S corporation and inclusion of Form 2553 with return
- Item H — Check boxes for final return, name change, address change, amended return, and S election termination or revocation

- Item I — Number of shareholders during the year (completed automatically based on the number of K-1s; number can be overridden on line I of screen 1.)

NOTE Enter accounting method at the bottom of screen 1.

Income and Deductions

Income and deductions are entered primarily on the **INC (Other Income)** and **DED (Other Deductions)** screens.

NOTE For information on the Schedule K items at the bottom of the **INC** screen, see “Schedule K: Shareholders’ Pro Rata Share Items” on page 18.

Gross Receipts

Enter gross receipts (Form 1120S, line 1b) and returns and allowances (line 1d) on the **INC** screen.

The program calculates gross receipts or sales after returns and allowances based on gross receipts, sales, and any direct entry on line 1d.

NOTE The IRS does not require a detail (Ctrl+W) worksheet for gross receipts; therefore, if you are using the trial balance import feature, do *not* include a detail worksheet for this line—or for any other line that does not require a detail worksheet. For more on the trial balance worksheet, see “Importing Trial Balance Information” on page 42.

NEW FOR 2011 Line 1a, Merchant card and third-party payments, is new for Form 1120S in 2011; however, because the IRS requires that a zero (0) be entered on this line for 2011, the field for line 1a on the **INC** screen is inactive (grayed-out).

Cost of Goods Sold (Form 1125-A)

For cost of goods sold (COGS), complete screen **A** (Form 1125-A, Cost of Goods Sold).

NOTE On screen **A**, items 9a through 9f are direct-entry fields and follow the format of IRS Form 1125-A. For more information on completing these fields, press F1 or consult the IRS instructions.

Inventory Inventory amounts entered on lines 1 and 7 of screen **A** automatically flow to Schedule L, line 3 (“Inventories”). Note that the **Inventories** fields on the **L** screen (**Schedule L - Balance Sheet - Assets**) are overrides. Anything entered there overrides the inventory data that flows from screen **A**.

Line 5, Other Costs

Line 5 of Form 1125-A is designated for any applicable costs not entered on the previous lines. In Drake, two fields on screen **A** are provided for line 5: one for other costs excluding depreciation, and one for depreciation (Figure 2).

4	Additional section 263A costs.....
5	Other costs - excluding depreciation.....
5	Depreciation.....
7	Inventory at end of year.....

Figure 2: Other Costs and Depreciation

In the **Depreciation** field, enter any depreciation that relates to the cost of goods sold (unless the amount is flowing from the **4562 Detail** screen with **COGS** selected from the **For** drop list). (Note that this field is an override field; an entry here overrides the calculations from the **4562** screen.) Amounts entered in this field automatically adjust the total depreciation that is carried to page 1 of Form 1120S. For **Other costs - excluding depreciation**, use a CTRL+W worksheet. The depreciation amount is included on the statement for other costs and should not be included in the **Other Costs** worksheet.

NOTE

Line **14b** on the **DED** screen is for Form 4562 depreciation that is not entered on screen **A** or elsewhere on the return.

Importing Trial Balance to Form 1125-A

If using the trial balance import feature (see “Importing Trial Balance Information” on page 42), enter depreciation amounts directly into the appropriate fields on the trial balance worksheet, *not* into the fields in data entry. When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A and is calculated accordingly.

Ordinary Gains and Losses

The amount on line 4 (Net gain (loss) from Form 4797, Part II, line 17) of Form 1120S flows from Form 4797. Amounts can also flow from screen **4562**, but only if that screen shows assets sold and property type.

Other Income (Loss)

Enter all amounts for line 5, Other income (loss), on the **INC** screen. **INC** screen data is displayed on attached statements in View mode.

Amounts from the following screens also flow automatically to line 5:

- **6478** (Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit)
- **8864** (Form 8864, Biodiesel and Renewable Diesel Fuels Credit)

Additional fields on the **INC** screen include:

- Amount of credit for tax on fuels

- Interest income on receivables
- Recoveries of bad debts
- Section 481 adjustments
- State tax refund
- Income from insurance proceeds

To enter income or loss from a partnership, estate, or trust, use the **K1P** or **K1F** screen. (Click the screen links on the **INC** screen or access them from the **Other Forms** tab).

To enter additional sources of income not shown, create a CTRL+W worksheet using the **Other Income (itemize)** field on the **INC** screen.

Compensation and Wages

Enter shareholder compensation and employee wages on the **DED** screen. Drake has two fields each for officer compensation and employee salaries/wages: one for non-shareholders, and one for shareholders.

NOTES

The **Salaries and wages to non-shareholders** field is an adjustment field. An amount entered here is combined with any amount entered in the **Labor hired** field on screen **F**.

The shareholder fields are used for calculating section 179 income limitations; see the WK_S179L worksheet in View mode.

Credit Adjustments

A credit adjustment is made for the following forms:

- Form 5884, Work Opportunity Credit
- Form 8844, Empowerment Zone and Renewal Community Employment Credit
- Form 8845, Indian Employment Credit

The adjustment is indicated on Form 1120S with the ATT_SSW literal. (Figure 3). Actual adjustments are shown on the ATT_SSW worksheet in View mode.

5	Other income (loss) (see instructions) (attach statement)	5	162
6	Total income (loss). Add lines 3 through 5	6	162
7	Compensation of officers	7	
8	Salaries and wages (less employment credits)	8	(300)
9	Repairs and maintenance	9	

Figure 3: ATT_SSW literal on Form 1120S

Repairs and Maintenance

Enter repair and maintenance costs on the **DED** screen. An amount entered there is combined with the amount, if any, entered in the **Repairs and maintenance** field on screen **F**.

Bad Debts

Use the **Bad debts** field on the **DED** screen to enter the total debts that became worthless in whole or in part during the year, but only to the extent that such debts related to a trade or business activity.

NOTES

Enter deductible non-business bad debts as a short-term capital loss on Schedule D (Form 1120S).

Cash-method corporations cannot take a bad debt as a deduction unless the amount was previously included in income.

Rents

Use the **DED** screen to enter rent paid on business property used for a trade or business activity. If the corporation rented or leased a vehicle, enter the total annual rent or lease expense incurred in the trade or business activity of the entity, and then complete Part V of the **4562** (screens **8** and **9**).

NOTE

The **Rents** field is an adjustment field. An amount entered here is combined with the amount, if any, entered in the **Rent** fields on screen **F**.

Taxes and Licenses

Enter tax and license amounts on the **DED** screen. Amounts are combined and the sum generated on Form 1120S, line 12 ("Taxes and licenses"). Note that credit from Form 8846 (Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips) should be entered on screen **8846**, which is accessible via a link from the **DED** screen. These amounts also appear on the "Taxes and Licenses Attachment," referred to on line 12 with the printed "ATT_STL" reference. (Figure 4.)

9	Repairs and maintenance	9	123
10	Bad debts	10	
11	Rents	11	111
12	Taxes and licenses	12	6,589
13	Interest	13	555
14	Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562)	14	567

Figure 4: Notification on line 12 of the 1120S return that the Taxes and Licenses Attachment has been produced with the return.

To keep the notification from appearing on line 12 of the return, go to the **PRNT** screen and select **Suppress printing of form and attachment references**.

State tax amounts (income tax and franchise tax) entered on the **ES** (Estimated Taxes) screen are carried to the tax computation (ATT_TAX) worksheet. The state tax amount carried from the **ES** screen may differ depending on which method of accounting (cash or accrual) is used.

Interest

Using the 1120S instruction guidelines, enter interest expense on the **DED** screen. Note that the **Interest expense** field is an adjustment field. Any amount entered here is combined with the amount, if any, entered in the **Interest** fields on screen **F**.

Depreciation

Enter depreciation on the **4562** screen. Select a form from the **For** drop list to associate the depreciable item with the correct form or activity. Data from the **4562** screens is calculated and carried to Form 1120 and to the selected schedules or forms.

For more information on depreciation and the **4562** screen in Drake, see the *Drake Software User's Manual: Tax Year 2011*.

Line 14, Depreciation

Line 14 of Form 1120S is reserved for depreciation that (1) is from Form 4562, and (2) is not claimed on Form 1125-A or elsewhere. While the program pulls data from the **4562** screen for this line, it also provides field **14b** on the **DED** screen specifically for depreciation that is claimed elsewhere.

Both lines **14a** and **14b** on the **DED** screen are adjustment fields.

- **Line 14a** — See field-level help for further instructions and information on how this field ties in to Form 4562.
- **Line 14b** — Drake recommends entering depreciation on the **4562** screen, and then selecting **COGS** from the **For** drop list at the top of the screen. You can also use screen **A** (rather than the **DED** screen) to enter depreciation claimed on Form 1125-A. An entry on screen **A** adjusts any entry on line **14b** of the **DED** screen and is calculated into the total deductions for page 1 of the 1120S. If there is an entry on line **14b** but not on screen **A**, only the line **14b** amount will be calculated into total deductions.

Depletion

Enter depletion amounts on the **DED** screen. Omit timber (use Form T, Forest Activities Schedules) and oil and gas properties. (Each shareholder should figure depletion.)

Advertising

Enter advertising expenses on the **DED** screen.

Pension and Profit-Sharing

Enter pension and profit-sharing expenses on the **DED** screen. Press F1 for information on what expenses to enter. The software reduces the expense based on the credit amount calculated from Form 8881, Credit for Small Employer Pension Plan Startup Costs. Note that this is an adjustment field; the software uses any amount entered here to adjust the amount flowing from Schedule F to the 1120S.

Employee Benefits Program

Enter on the **DED** screen amounts for fringe benefits paid or incurred on behalf of employees owning 2% or less of the corporation's stock.

Do not deduct amounts that are an incidental part of a pension, profit-sharing, etc., plan included on line 17 or amounts reported elsewhere on the return.

Report amounts paid on behalf of more than 2% shareholders on line 7 or 8, whichever applies. A shareholder is considered to own more than 2% of the corporation's stock if that person owns, on any day during the tax year, more than 2% of the outstanding stock of the corporation or stock possessing more than 2% of the combined voting power of all stock of the corporation.

Note that this is an adjustment field. An amount entered in here adjusts the amount flowing to Form 1120S from Schedule F, line 17.

Other Deductions

Enter all other deductions on the **DED** screen. Drake incorporates the total into line 19, Other deductions, on Form 1120S.

The following deductions, credits, adjustments, and exclusions also flow to line 19:

- Amortization from Form 4562
- Credit adjustment from Form 8820, Orphan Drug Credit
- Exclusion from Form 8873, Extraterritorial Income Exclusion
- Credit from Form 8941, Credit for Small Employer Health-Insurance Premiums

Tax and Payments

Screen 4 has fields for completing the "Tax and Payments" section of Form 1120S. Note that some fields are overrides. Press F1 to view more information on a field.

Net Passive Income

Line 22a, "Excess net passive income or LIFO recapture tax," could apply to an S corporation if it was formerly a "C" corporation or if it engaged in a tax-free reorganization with a "C" corporation.

To determine if the corporation must pay the tax, complete the worksheet fields on screen 4. If completing the IRS worksheet, enter the worksheet results on screen 4. Enter LIFO recapture directly on screen 4.

NOTE

To force the line 22a worksheet to be printed, select the applicable box on screen 4.

Schedule D

Use screen **D** to enter data for Parts I and II of Schedule D (Form 1120S), Capital Gains and Losses and Built-in Gains. Use the **DTAX** screen for Part III of Schedule D (Form 1120S). For information on using the Schedule D import feature in Drake, see "Schedule D Imports" in Chapter 5 of the *Drake Software User's Manual: Tax Year 2011*.

2011 Estimated Tax

The 1120S does not have a federal estimated tax voucher. Estimated tax payments are required only in certain situations. An S corporation must make electronic deposits of employment, excise, and corporate income taxes using the Electronic Federal Tax Payments System (EFTPS).

Use the **ES** screen to enter estimated tax payments made for tax year 2011 and estimated amounts for tax year 2012. Future year amounts appear on the ES_SUM worksheet generated with the return.

Payments with Extensions

To make a payment with an extension request, enter the amount being paid on the **7004** screen. If an extension was previously requested and a payment was made then, enter the amount paid on screen **4**, line 23b.

Tax Paid on Fuels

Use screen **4136** to enter information for Form 4136, Credit for Federal Tax Paid on Fuels. Note that this screen actually consists of two screens, with lines 1 through 8f on the first screen. Press PAGE UP or PAGE DOWN to go from screen to screen.

Estimated Taxes

Use the **ES** screen to enter federal and state estimated taxes paid in 2011. If the return was updated in Drake from 2010, this information is carried over. Note that this information will be overridden by any entry in the **Current-year estimated tax payments** field on screen **4**.

Estimated Payments for 2012

Use the **ES** screen for 2012 estimated payments. To enter the amount to be credited, used the **OP to 2012** field. Note that this information will be overridden by any entry in the **Amount to be credited to next year's estimated tax** field on screen **4**.

Underpayment of Estimated Tax

For underpayment of estimated tax, complete all applicable fields on screen **2220**.

Direct Deposit of Refunds

The IRS requires that Form 8050, Direct Deposit of Corporate Tax Refund, be submitted with an e-filed return in order for a corporate refund to be directly deposited. To complete this form in Drake, use the **DD** screen (Figure 5).

Figure 5: Federal section of **DD** screen (also **8050** screen)

When filling out the **DD** screen:

- If the federal refund is to go to the account listed, select **Yes** for the **Federal Account** selection; otherwise, select **No**. (Default is **Yes**.)
- If a state refund is to go to the account listed, select the state abbreviation from the **State/city selection** drop list.
- Enter the name of the financial institution, the routing number (RTN), the account number, and the type of account (**Checking** or **Savings**).
- Re-enter the RTN, account number and type of account to verify.

If receiving refunds from different state tax authorities, use the **State Account** boxes on the **DD** screen to indicate where other state refunds should be deposited.

International ACH Transactions

In 2009, state taxing agencies added foreign account questions to their forms to comply with NACHA rules regarding International ACH transactions (IAT); however, processing IAT is not yet supported by any federal or state tax authority. If you were to indicate that the account was outside the U.S., the state tax authority would automatically ignore the account information and either issue a refund via paper check, or contact the taxpayer requesting the payment of a balance due via check or domestic bank account. If you indicate that an account is located outside of the U.S., Drake Software generates a message page instructing you to choose an account located in the U.S.

For more information, see Screen Help on the **DD** screen and **PMT** screens.

Electronic Funds Withdrawal (Direct Debit)

Use the **PMT** screen, accessible from the **General** tab, to indicate that the balance due for an e-filed return should be withdrawn (direct-debited) from an account.

Program Defaults and Overrides

By default, the program indicates that the entire balance due (the “Amount owed” section of Form 1120S) is to be withdrawn on the return due date. To indicate otherwise, complete the **Requested payment date** override field for the applicable payment.

If the return is e-filed on or before the due date, the requested payment date cannot be later than the due date. If the return is transmitted after the due date, the requested payment date cannot be later than the current date.

Required Information

A **Withdrawal selection** (item 1 in Figure 6) is required if the program is to direct tax authorities to withdraw funds from the taxpayer's account.

The screenshot shows the PMT screen with three red circles highlighting required fields:

- 1**: Withdrawal selection: Federal selection..... [dropdown] State/city selection..... [dropdown]
- 2**: Account information section, including Name of financial institution, RTN, Account number, and Type of account (Checking/Savings) for both Federal and State sections.
- 3**: Specified return section, including Federal: Federal payment amount..... = [input] Requested payment date.... = [input] Daytime phone number.. = [input] and Payment is for..... [checkbox] 1120S [checkbox] 7004 [checkbox] Amended 1120S.

Figure 6: Required fields on **PMT** screen: withdrawal selection (1); account information (2); specified return (3)

The name of the financial institution, routing number (RTN), account number, and account type are required. As with the **DD** screen, the **RTN**, **Account number**, and **Type of account** data must be entered twice (item 2 in Figure 6).

Finally, the **PMT** screen must indicate the return to which the payment data applies (item 3 in Figure 6). Put a check mark in the box of the applicable return type.

Withdrawal from Multiple Accounts

Only **one** account can be designated for direct debit of funds for payment of federal or state taxes. To have state amounts withdrawn from an account other than the account indicated for federal payments, complete the fields in the **State Account** sections of the **PMT** screen.

NOTE Neither the federal nor the state balance due can be paid from more than one account.

Filing an Extension

Calendar year returns are due on March 15, 2012. By filing Form 7004, an S corporation can extend the deadline six months to September 15. Fiscal year returns are due on the 15th day of the third month after the end of their year. Form 7004 extends the deadline six months.

To file an 1120S extension, use either of the following options:

- Go to the **7004** screen in Drake and select **Generate an extension**. Complete any other applicable fields on the screen.

- Go to the **PRNT** screen and select **Prepare Form 7004 based on screen 1 data**.

Signing the Return

Electronic (PIN) signatures are required for e-filed returns. If e-filing a return, complete all fields on the **PIN** screen. A return cannot be e-filed if the **PIN** screen is not completed, including the title and signature (name) of the officer signing the return.

An 1120S return must be signed and dated by one of the following individuals:

- The corporation's president, vice president, treasurer, assistant treasurer, or chief accounting officer
- Any other corporate officer, such as a tax officer, who is authorized to sign

If the return is prepared by a paid preparer, the preparer must complete the required information and sign the return in the space provided. If it is prepared by an employee or officer of the corporation, select **NONE** in the **Firm #** and **Preparer #** fields on screen **1**.

To have the preparer's name and address information displayed on the printed return:

- If the return preparer and ERO (entered in **Setup > ERO**) are the same:
 - Go to **Setup > Preparer(s)** and ensure that the **Alternative Electronic Signature** box is marked for the preparer.
 - Complete the **PIN** screen for the return.
- If the return preparer and ERO are *not* the same:
 - Go to the **PRNT** screen for the return and complete the field labeled **PIN for preparer's alternative electronic signature**. The PIN entered should match the one entered for the preparer in **Setup > Preparer(s)**. (For more information, press F1 in this field.)

NOTE

Setup > ERO must still be completed for e-filing. See the IRS instructions for further details on signature requirements.

Amending a Return

Amended 1120S can be e-filed using Drake Software.

CAUTION

When you amend a return in Drake, the amended information replaces the original in the data file. Before amending a return, you should archive the original to avoid losing previously submitted data. For more information on archiving returns, see "Archive Manager" in Chapter 6, "Return Results," of the *Drake Software User's Manual: Tax Year 2011*.

To file an amended 1120S return:

1. Go to screen **1** and select **Amended return** in section **H**.
2. Make changes as applicable to forms and schedules.

3. Go to the **EF** screen and mark the **1120S** check box on the left side of the screen.
4. Go to the **AMD** screen and list the changes that have been made, along with an explanation for each change. Use a different **AMD** screen for each line of the 1120S. Press PAGE DOWN to open a new **AMD** screen.

If amending just the K-1s, go to each applicable **K1** screen, select **Amended K1**, and make needed changes.

NOTE

When amending an 1120S return, all K-1s are amended, and the "Amended K-1" box on the return marked, by default. To override this default, go to the **PRNT** screen and mark **Do NOT check amended box on Sch. K-1**. (See Figure 8 on page 20.)

Additional Information

This section covers Schedule B (Other Information), state-specific information, and some program overrides.

Schedule B

Enter the accounting method, principal business activity, and product or service on screen **1**. This information (questions 1 and 2 of Schedule B) flows to Schedule B.

Use screen **B** to answer questions 3–8 of Schedule B. If the S corporation owned, directly or indirectly, 50% or more of the voting stock of a domestic corporation, click the **B3** link to enter information about the domestic corporation owned. (You can enter information for up to 15 corporations per **B3** screen; to add more, click PAGE DOWN.)

State-specific Information

Resident State

The program automatically generates a return for the corporation's resident state. Use screen **2** to enter company information as it should appear on the state return.

NOTES

The company information fields on screen **2** apply for the resident state only.

The link to screen **2** now appears under the **States** tab (or enter 2 in the selector field and press ENTER).

Company information includes the type of return that applies for state purposes (consolidated, composite, controlled group, multi-state) and state-specific dates and numbers for identification.

Other States

Data for other states must be entered manually in state data entry. To access state data entry, select the **States** tab from the return menu and choose a state.

Multi-State Apportionment

New for 2011: Enter sales, payroll, and property factors on the **APPT Multi-State Apportionment** screen (accessible from the **States** tab or by entering APPT in the selector field and pressing ENTER). This screen provides one central location for enter-

ing all state apportionment information instead of having to open each needed state's screen.

In addition to making data input faster and easier, the new feature provides two new worksheets: a summary worksheet (SA-SUM~) that can be used for verifying input, and a reconciliation worksheet (SA-REC) that ties the total of the state amounts to the federal return figures. These worksheets are available in View mode.

The individual state apportionment screens will continue to be available in Drake11 but will be used to override data entered on the **APPT** screen. No state apportionment-related screens will be updated from Drake10 to Drake11.



Figure 7: New APPT screens

APPT Screens The new **APPT** screen is opened to the **Sales** tab. Links at the top of this screen take you to the **Payroll**, **Property**, and **Additional Property information** tabs for each state selected (Figure 7). These screens and their uses are listed in Table 1:

Table 1: APPT Screens

Screen	Information
Sales	Select state; enter sales, returns and allowance, and other income-related information for each selected state
Payroll	Enter salary, wage, commission, and labor amounts for each selected state
Property	Enter beginning and ending amounts of common apportionment factors, plus select additional apportionment factors from drop lists
Additional Property	Select additional apportionment factors from drop lists

NOTE

The **Ending** amount entered on the **Property** and **Addition Property** screens in Drake11 will become the **Beginning** amount for property on the **APPT** screen when the client's return is updated next year in Drake12.

You may enter up to four states on one **APPT** screen. If you need more than four states, press **PAGE DOWN** for a new **APPT** screen. The same state can be entered more than once when additional fields are needed.

Select **OT Other Reconciliation** from the **State Selection** drop list when using the reconciliation worksheet. Not every item appearing on the federal return may be subject to multi-state apportionment. When you select **OT**, the data entered becomes a reconciling adjustment amount to aid in tying to the federal return.

Enter as much or as little detail as the states require. If a state does not require any information to be entered, no information will flow to that state's return.

Click **Screen Help** on each tab for state-specific information.

Contact Information

If certain contact information required for state purposes is different from that entered on screen **1**, use screen **2** for the alternative data for any of the following entities:

- Registered office
- Principal place of business
- "Books in care of" information

Screen **2** also has fields for the name, title, e-mail address, ID number, and telephone number of the S corporation's contact person.

Access screen **2** from the **States** tab or by entering **2** in the selector field and pressing **ENTER**.

Officer Information

Screen **E**, **Officer Information**, is for state purposes only. Nothing entered on this screen is carried to the federal return. The link to this screen has been moved to the **States** tab (or you can enter either **E** or **OFF** in the selector field and press **ENTER**).

Other Information and Overrides

Use screen **1** to enter the following additional information:

- **Resident State** — If the corporation has a mailing address in one state but does business in another, select the state in which the corporation does business from the **Resident State** drop list.
- **Drake Codes and Overrides** — Information on miscellaneous codes, invoice numbers, and override fields is covered in the *Drake Software User's Manual: Tax Year 2011*.

Schedule K: Shareholders' Pro Rata Share Items

Screen **K**, which consists of two screens, can be used to enter data for Schedule K, Shareholders' Pro Rata Share Items. Note the **K** fields are primarily adjustment fields.

Press F1 (or use the right-click menu) to see what amounts are adjusted from elsewhere in the program.

NOTE

You can also find information on adjustment and override fields in the Adjustment Worksheet and Override Worksheet, available through the **FAQ** screen. Open the **FAQ** screen, click the **Screen Help** button (or press CTRL+ALT+?) and click the links at the top of the window.

Navigation

Press PAGE UP and PAGE DOWN to navigate back and forth between the two **K** screens:

- Shareholders' Pro Rata Share Items (Income and Deductions)
- Credits & Credit Recapture & Foreign Transactions

TIP

The most commonly used Schedule K items can be answered on the **INC** screen. If these amounts are entered there, they do not need to be entered on the **K** screens.

NOTE

Because charitable contributions are separately stated to the shareholders, there is no "Charitable Contributions" line on the 1120S return. Charitable contribution information belongs instead on the Schedule K. Enter charitable contributions in the bottom section of the **INC** screen or in the line **12a - Contributions** fields of the **K** screens. Any contribution limitation is made at the shareholder level.

Schedule K-1 for 1120S (Shareholder Information)

Use the **K1** screen to enter data for Schedule K-1, Shareholder's Share of Income, Deductions, Credits, etc.

NOTE

The program now calculates percentage ownership based on the number of shares owned. (This amount can be overridden on line **F** of the **K1** screen. Use of the **Shareholder's % of stock ownership** field, however, is not recommended.)

Ownership Changes

Entry of ownership changes has changed in the 2011 program. Previously, ownership changes were entered on a third **K** screen. New in 2011, all ownership change information is entered on the **OWN** screen, which is accessible from the **General** tab of the **Data Entry Menu**. To use the **OWN** screen:

- Enter the date of ownership change at the top of the screen.
- Select the applicable shareholder from the drop list in the **Change in Shares** section. (The drop list consists of the names and ID numbers entered on the **K1** screens and is updated automatically).
- Enter the change in ownership as a positive amount for an increase and a negative amount for a decrease. (See field-level help for more information.)

- To enter additional ownership changes, press PAGE DOWN.

NOTE See FAQ item "P" in the program for more information on entering ownership-change information.

Printed Data A Summary of Stock Ownership worksheet (WK_SOWN) is generated listing all shareholders and the numbers of stocks owned, along with the changes in ownership. Because a shareholder's percentage ownership may change even if the shareholder's number of stocks owned does not, all shareholders are listed on the worksheet.

IRS K-1 Codes

A code sheet can follow the printing of each Form 1120S K-1 to help interpret the various codes used on Schedule K-1. In Drake, this is the 1120SK_1.PG3 sheet. To have this sheet printed with all K-1 schedules, go to **Setup > Options > Form & Schedule Options** tab and mark the **Print Page 2 of Schedule K-1** check box. The codes can also be printed for a specific return by marking the applicable box on the **PRNT** screen, and are available from **Tools > Blank Forms**.

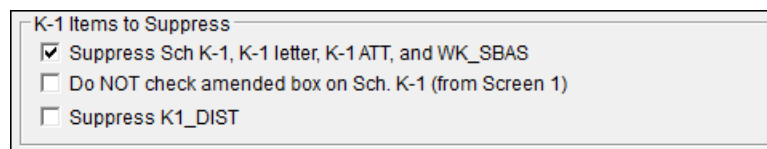
NOTE *Codes sheets are not displayed in View mode.* If the 1120S K-1 is selected for printing, it is printed first, followed by the statements pertaining to that 1120S K-1. These are followed by the code sheets.

The generated Schedule K-1 may include asterisks with letter codes.

- An asterisk with a letter code indicates that multiple items have that code.
- An asterisk at the bottom of a group indicates that there are more items than can fit in the space provided for that group and that a statement is attached, or that the statement is required (as in the case of "other" amounts).

Multiple Shareholders

For returns with a large number of shareholders, you have the option to deactivate calculation and printing of the K-1s while working on the Form 1120S. This option, which eases the process of reconciling the 1120S, is available by going to the **PRNT** screen and marking the box under **K-1 Items to Suppress** (Figure 8).



K-1 Items to Suppress	
<input checked="" type="checkbox"/>	Suppress Sch K-1, K-1 letter, K-1 ATT, and WK_SBAS
<input type="checkbox"/>	Do NOT check amended box on Sch. K-1 (from Screen 1)
<input type="checkbox"/>	Suppress K1_DIST

Figure 8: Check box for suppressing K-1 items (located on **PRNT** screen)

When the return is ready to be filed, return to the **PRNT** screen and remove this check mark before calculating the return.

Override Fields

It is not possible to override the calculations for a single shareholder. To override calculated data, it is necessary to override the calculated amount on all K-1 schedules.

IMPORTANT

Shareholder overrides should not be done for an S corporation except in certain circumstances, such as ownership changes.

Foreign Addresses

If the shareholder has a foreign address, enter **Province/State, country, and postal code** information on the **Foreign** address line of the **Shareholder Name and Address Information** section (along with the street address and city in the **Address** and **City** fields). Do not enter anything in the U.S. **State** or **ZIP** fields. Conversely, for a U.S. address, do not enter anything into the foreign address fields

K-1 Export

Take the following steps to export a K-1 from an 1120S return into a 1040 return:

1. Ensure that K-1 data is entered in the 1120S and that the 1040 has been created. (The **K1S** screen in the 1040 does not have to be created beforehand.)
2. In the 1120S return, go to View mode.
3. Click **K1 Export** in the View mode toolbar. If any K-1s are not eligible to be exported, that list appears. Click **Next** to continue; otherwise, the list of K-1s eligible for export appears.
4. Select the SSNs to be exported by marking the boxes to the left of the SSNs.
5. Click **Export**. The K-1 data will be displayed in the 1040 return in the program.

NOTE

Basis information for individual shareholders should be entered in the 1040 package in Drake; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Supplemental Info

Two types of supplemental information can be added to Schedules K-1:

- Supplemental data for all K-1s in a return
- Supplemental data for a single K-1 in a return

To add supplemental information “globally” (to all K-1s), from the **Data Entry Menu**, open screen **K1G (Global Supplemental Information)** and enter the information in the **Supplemental Information** text box. This information will appear on all printed shareholder K-1s.

To add supplemental information to an individual K-1, open a shareholder's **K1** screen and click the blue **Supplemental Info** link at the top of the screen. In the **Supplemental Information** pane (Figure 9), enter information pertinent to this share-

holder. When the return is printed, this information will appear only on this shareholder's K-1.

Figure 9: In this example, the information entered on the **K1S** screen appears only on the individual shareholder's K-1.

Domestic Production Activities

An S corporation does not take the deduction for Form 8903, Domestic Production Activities Deduction. Because the deduction is subject to income limitations, this information must be reported on shareholders' individual returns. Shareholders use the pass-through amounts to calculate their eligibility for the deduction.

On the **8903** screen, if the **Print K1-8903 for each shareholder** box is not selected, the amounts flow to the **K-1**, box 12, with codes **Q** and **R**. When this box is selected, the information flows to attachment K-1_8903 instead of box 12 on the K-1. Attachment K1_8903 is referenced on a statement. Code **P** is printed on box 12 of the K-1, which refers to domestic production activities information.

Review the screen **8903** screen-level help, and the 8903 instructions (accessible through the **Screen Help** button on the **8903** screen) to determine when the K1_8903 is needed.

NOTES

Line 11 ("Income limitation") of Form 8903 is not applicable for the S corporation because the income limitation is calculated at the shareholder level.

"Form W-2 wages" (on the **8903** screen) refers to the corporation's W-2 wages paid that are applicable to the Domestic Production Activities Deduction.

K-1 Cover Letters

K-1 cover letters can be produced to accompany each Schedule K-1 in a return. You can set up the global option to produce K-1 cover letters for all returns containing K-1 schedules, or you can choose the option on a per-return basis.

Producing Letters for All Returns

To have the K-1 cover letters produced automatically with *all* applicable returns, go to **Setup > Options**. Under the **Optional Documents** tab, mark the box labeled **Include K-1 letter with returns**. The signature on the return can be indicated in one of two ways:

- By completing the **Signature** and **Title** fields on the **PIN** screen

- By completing the **Name** and **Title** fields in the **K1L** screen (entries here override entries on the **PIN** screen)

Producing Letters for Single Return

If no default has been set to produce K-1 cover letters with all returns, you can take the following steps to generate letters for a single return:

1. Open the return and go to screen **K1L**.
2. At the bottom of the screen, enter the name and title of the person who will be signing the K-1 cover letter.
3. (optional) Mark **Do not print entity information ...** at the bottom of the screen in order to prevent the corporation's name and address from being generated in the header of the K-1 letter.

NOTE

To have the corporation's name and address generated for K-1 letters, go to **Setup > Letters > Setup > Letterhead and Margins** and select **Use Firm Info on Letters**.

Once the required signing information has been entered, a K-1 cover letter will be generated for each shareholder receiving a K-1.

Editing the K-1 Letter

As with other letters provided by the program, you can edit the text to suit your office needs and style.

TIP

Review the following sections of the *Drake Software User's Manual: Tax Year 2011* before making changes to letter templates:

- "Introduction to Letters in Drake" in Chapter 2, Installation & Setup
- The "Letter Keywords" section of Appendix C, Keywords

To edit the text of the K-1 letter:

1. From the **Home** window, select **Setup > Letters**. The **Client Communications Editor** is displayed.
2. Select **Open > S Corporation > Sub S K-1 Cover** to view the template of the S corporation K-1 letter.
3. Make any desired changes to the template.
4. Click **Save**.

NOTE

For an amended return, the K-1 letter automatically refers to the amended K-1. To edit the letter for an amended K-1, select **Open > S Corporation > Sub S K1 Amended** and follow steps 3 and 4 of the previous procedure.

Shareholder's Adjusted Basis Worksheet

NOTE

Basis information for individual shareholders should be entered in the 1040 package in Drake; this information cannot be exported from the 1120S package to a 1040 return. Such an import would override limitations and carryovers calculated in the 1040 program.

Use the Shareholder's Adjusted Basis Worksheet (**Basis Wks** screen) to calculate a shareholder's new basis after increases and decreases are made during the current year. The basis of S corporation stock is adjusted on an ongoing basis (unlike for a "C" corporation, where stock basis remains constant unless additional stock purchases are made or stock is sold). A shareholder's beginning basis in S corporation stock is the original capital contribution.

The **Basis Wks** screen is accessible by clicking the **Basis Wks** tab at the top of the **K1** screen for a shareholder (Figure 10). (Access the **K1** screen from the **Data Entry Menu**.)

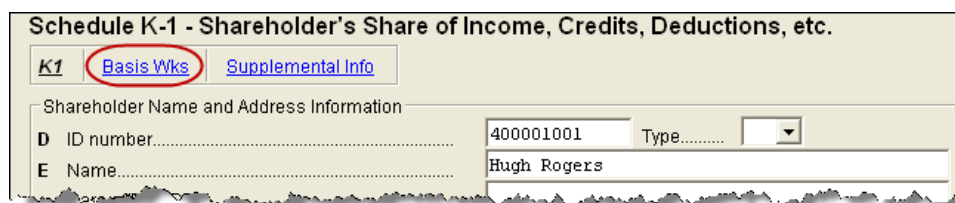


Figure 10: K1 screen tab for accessing the Adjusted Basis Worksheet

Increases and Decreases

Increases to basis can include additional stock purchases and capital contributions, separately stated income (including tax-exempt income), and depletion in excess of basis of property.

Decreases to basis can include distributions of cash or property to shareholders, separately stated losses and deductions, nondeductible corporation expenses, and credit adjustments.

Annual Update of Shareholder Information

When the program is updated to the next tax year, the end-of-year basis and shareholder loan amounts are automatically updated to the beginning of the new year. Any loss/deduction carryover is updated to the beginning of the year and its character (ordinary loss, section 179 expense, charitable contributions, etc.) maintained. The program also tracks the amount of debt applied to losses and the total amount of loss carryforwards.

NOTE

If a **K1** screen is marked as final, none of the related screens for that shareholder are updated for the next year.

Schedule L: Balance Sheet Per Books

Schedule L is required if the corporation's total receipts for the tax year or its total assets at the end of the year is greater than \$250,000.

NOTES

To force the program to print Schedule L even if not required, go to the **PRNT** screen and select **Force-print Schedules L and M-1**.

With the Trial Balance Import feature, you might not need to use screen L at all. See "Importing Trial Balance Information" on page 42.

Flow of Information

Many of the entries made elsewhere on the return flow automatically to the generated Schedule L (for example, inventory information from Form 1125-A). Depreciable asset information from the **4562** screen and intangible assets and amortization also flow to Schedule L.

The SCH2 Screen

The **SCH2** screen is used to provide detailed information required by the IRS for certain lines on Schedule L. This screen can be used in place of the actual **L** screen in Drake. In other words, if you use this screen for all applicable lines on Schedule L, you *do not* need to make any entries on the **L** screen.

NOTES

All line selections are carried to the **SCH2** screen in next year's program when the returns are updated. Line descriptions are updated, with the year-end amounts carried to the beginning-of-year column.

To access the **SCH2** screen from the **L** screen, click the **SCH2 Screen** link on lines 6, 9, or 14 (or press CTRL+2).

To create a statement for a line, select a line from the drop list and enter descriptions and their corresponding amounts. Once the information is entered, or if additional descriptions are required for the line, press PAGE DOWN to access a new screen.

Statements

The total amounts entered on the **SCH2** screen do not show up on the actual **L** screen in the program. They are, however, printed on the return as applicable, with references to the corresponding statements.

The type of statement produced by the program depends on the selected line and the IRS requirements. If a line is required, a statement labeled "STATEMENT" is produced and is e-filed with the return. If a line is *not* required, a statement sheet ("STMT") is produced and is *not* e-filed with the return.

Note that an e-fileable "STATEMENT" is referenced in the return, as shown in the example of Figure 11.

Select line number from drop list

5	OTHER CURRENT ASSETS
1	Cash
2a	Trade Notes and Accounts Receivable
2b	Allowance for Bad Debts
3	Inventories
4	U.S. Government Obligations
5	Tax-exempt Securities
6	Other Current Assets (STATEMENT)
7	Loans to Shareholders
8	Mortgage and Real Estate Loans
9	Other Investments (STATEMENT)
10a	Buildings and Other Depreciable Assets

Less allowance for bad debts	
3	Inventories
4	U.S. government obligations
5	Tax-exempt securities (see instructions) . .
6	Other current assets (attach statement) . .
7	Loans to shareholders
8	Mortgage and real estate loans
9	Other investments (attach statement)
10 a	Buildings and other depreciable assets . . .

STATEMENT # 19	96,200
----------------	--------

Figure 11: Data entered on the “Other current assets” line will be attached as an e-fileable statement and referenced on the applicable line of the return.

SCH2 and Trial Balance

Typically, one or more **SCH2** detail screens are needed for Schedule L items. If you are using Drake’s trial balance worksheet feature, be aware that data for the **SCH2** screens cannot be entered directly into the trial balance worksheet, and it cannot be imported into the data entry. The **SCH2** detail screens must be created apart from the trial balance worksheet.

When the return is produced, Schedule L reflects both the amounts imported from the trial balance worksheets (where direct entry was allowed) and the totals of the **SCH2** screen amounts.

For more information, see “SCH2 Detail” on page 50.

Autobalance

Autobalance forces Schedule L to balance for both the beginning- and end-of-year amounts. The program adjusts the unappropriated retained earnings amount on Schedule L by the difference between the total assets and the total liabilities and capital *before* the adjustment.

(Example: If Assets = \$1,000, and Liabilities and Capital = \$900, the program increases the unappropriated retained earnings by \$100.)

The program makes the adjustment due to differences in the balance sheet. These differences can come from amounts entered incorrectly but are usually the result of one of the following causes:

- An asset was deleted from the **4562** screen (**Depreciation Detail**) instead of being indicated as sold.
- Beginning inventory amounts were adjusted on screen A, or ending inventory amounts were entered incorrectly.

- Amounts were erroneously deleted from or changed on screen **L**.

To reconcile the differences, it is best to compare the corporation's beginning and ending balance sheet amounts for the tax year.

To deactivate the autobalance feature for a specific return, go to the **PRNT** screen and select **Turn off autobalance**.

Schedules M-1, M-3 (Reconciliation of Books/Return)

Schedule M-1 is required if the balance sheet's total assets at the end of the year are greater than \$250,000. Schedule M-3 is required if the balance sheet's total assets at the end of the year equal or exceed \$10 million.

NOTE

If the S corporation is filing Schedule M-3, and there are entries on the **M1** screen, it's best to delete the **M1** screen. To do so, open the **M1** screen and press CTRL+D.

Schedule M-1

Schedule M-1 shows all items of income and expense that are not subject to tax, plus those accounting items that are not income tax items. When required, taxpayers must reconcile book income with taxable income.

Use the **M1** screen to enter book-to-tax difference for Schedule M-1. Book-to-tax differences are classified as permanent or temporary, and as favorable or unfavorable. Examples of both kinds of differences are shown in Table 2.

Table 2: Examples Book-to-Tax Differences for Schedule M-1

Difference	Description	Examples
Permanent	Book or tax items that will never be reported for book or tax purposes	- Meals & entertainment limitations - Penalties - Tax-exempt interest
Temporary	Items that will be reported for both tax and book purposes, but not during the same tax year	- Depreciation - Gains or losses on the sale of depreciated assets
Favorable	Items that reduce taxable income	- Instances in which tax depreciation amount is greater than book depreciation amount
Unfavorable	Items that increase taxable income	- Disallowed meals & entertainment

Depreciation and Amortization Adjustments

The program may make an adjustment for book-to-tax depreciation (or amortization) differences. The calculation is done with the following steps. (This procedure refers to "depreciation" throughout, but it applies for either depreciation or amortization.)

1. The amount reported on Schedule L "Beginning of Year" accumulated depreciation (line 10b, column a) is subtracted from the "End of Year" accumulated depreciation (line 10b, column c). This is the "book" depreciation amount.

2. This “book” depreciation amount is compared to the “tax” depreciation amount. (The “tax” depreciation amount is calculated from the Forms 4562, including any section 179 amounts.)
3. The difference between the “book” and “tax” depreciation amounts is carried to the appropriate form and line.
 - If the “book” depreciation amount is greater than the “tax” depreciation amount, the difference is carried to one of the following locations:
 - Schedule M-1, line 3a
 - Schedule M-3, Part III, line 24 (as a negative amount)
 - Form 8916-A, line 2l (as a negative amount for assets selected on the **4562** detail screen for COGS)
 - If the “tax” depreciation amount is greater than the “book” depreciation amount, the difference is carried to one of the following locations:
 - Schedule M-1, line 6a
 - Schedule M-3, Part III, line 24 (as a positive amount)
 - Form 8916-A, line 2l (as a positive amount for assets selected on the **4562** detail screen for COGS)

Schedule M-3

Any domestic corporation or group of corporations that report on Schedule L of Form 1120S total assets at the end of the S corporation's tax year that equal or exceed \$10 million must complete and file Schedule M-3 instead of Schedule M-1. If the S corporation is required to file (or voluntarily files) Schedule M-3, it *must* file Form 1120S and all attachments and schedules, including Schedule M-3.

Accessing the M3 Screens

The **Schedule M-3** section of the **Data Entry Menu** provides direct access to the following screens:

- **M3, M32, and M33** — for **Parts I, II, and III** of the Schedule M-3
- **M3S** — for supplemental statements
- **SCH3** — for subsidiary schedules for Schedule M-3 and Form 8916-A
- **8916A** — for Form 8916-A, Supplemental Attachment to Schedule M-3

Certain income, deductions, gains, and losses flow from the 1120S to the M-3 in the program, but all other M-3 data must be entered manually on the **M3** screens.

NOTE

Parts II and III of Schedule M-3 reconcile financial statement net income (loss) for the U.S. tax return (per Schedule M-3, Part I, line 11) to total income (loss) on Form 1120S, page 3, Schedule K, line 18.

The SCH3 Screen

The **SCH3** screen is similar to the **SCH2** screen and is used to provide detailed information for Schedule M-3 and Form 8916-A. It can be used in place of the actual **M3** and **8916A** screens.

For more information on using this type of screen, see “The SCH2 Screen” on page 25.

Schedule M-2 (Analysis of Accounts)

NOTE On an 1120S return (unlike an 1120 return), Schedule M-2 is *not* a reconciliation of retained earnings.

For an S corporation return, Schedule M-2 is the analysis of the Accumulated Adjustment Account. Schedule M-2 information can be entered on the **M2** screen and elsewhere in the program, but most information is carried to the M-2 automatically. See “Entering Distributions,” following.

Schedule M-2 represents a corporate picture of the income, losses, and distributions to shareholders and tracks tax-free distributions and helps determine if excess distributions might be taxable to shareholders. If a shareholder receives more in distributions than he or she has in basis, the result might be taxable.

Entering Distributions

Code Section 6037 states that an S corporation return must report the amount and date of distributions made to each shareholder. The **DIST** screen is used for entering date and distribution amounts for Schedule K, line 16d, Distributions. In addition to line 16d, the total from the **DIST** screen may flow to Schedule M-2, line 7 (subject to limitations) and to the Schedules K-1 based on the shareholder's ownership percentage. Schedule K-1 distribution information is displayed on the K1_DIST worksheet produced with the return.

Column A, Accumulated Adjustments Account

The **Accumulated Adjustments Account** (AAA) column generally reflects the S corporation's accumulated undistributed net income after 1982. Non-dividend distributions flow to Schedule M-2 from Schedule K, line 16d. An entry in the **Non-dividend distributions** field (line 7) of the **M2** screen adjusts the amount from the **K** screen (subject to limitations; see balance-sheet examples on the following page).

Distributions reported on line 7 flow differently from the amount entered on the **DIST** screen. (See the previous section, “Entering Distributions.”) The distributions are limited following the ordering rules under Reg §1.1368.2.

TIP See Form 1120S instructions for more details and examples.

These rules are for Schedule M-2, column a:

- **Line 1 balance** — The balance at the beginning of tax year, line 1 is either zero or the balance carried forward from line 8 of the previous year. Due to prior-year net losses and reductions, the amount on line 1 can be negative.
- **Changes to AAA** — The AAA is increased for ordinary income from page 1, line 21 (line 2) and other additions listed on line 3. The AAA is then decreased for any loss from page 1, line 21 (line 4) and other reductions listed on line 5.

- **Reduction of AAA** — Once these adjustments are made, the AAA is reduced by ordinary distributions on line 7, but not less than zero. Thus, if the distributions are \$20,000, but the net amount on line 6 is \$10,000, line 7 is limited to \$10,000. If line 6 is a negative number, then line 7 will be zero (in this example). To allow an amount on this line would take the AAA to a larger negative number. (That is, even more below zero than it really is).

Schedule M-2	Item	Amount
Line 1	Balance at beginning of tax year	(\$11,786)
Lines 2 & 3	Ordinary income and other additions	\$58,440
Lines 4 & 5	Loss and other reductions	<u>(\$489)</u>
Line 6	Combine lines 1-5	\$46,165
Line 7	Distributions (total \$60,000)	<u>(\$46,165)</u>
Line 8	Balance at the end of tax year	<u><u>\$0</u></u>

The rules from the preceding chart apply when the net adjustment for lines 2 through 5 is positive. When the net adjustment for lines 2 through 5 is *negative*, the ordering rules are switched and AAA is decreased by ordinary distributions (but not below zero) before the net negative adjustment for lines 2 through 5.

Sch. M-2	Item	Amount
Line 1	Balance at beginning of tax year	\$11,786
Line 6	Net negative adjustment (lines 2-5)	(\$57,951)
Line 7	Distributions (total \$60,000)	<u>(\$11,786)</u>
Line 8	Balance at end of tax year	<u><u>(\$57,951)</u></u>

Important Note about the AAA

A corporation can make distributions greater than the amount on line 6 of the M-2, but those distributions could be taxable to the shareholders. Enter distributions on the **DIST** screen; this way, the amounts flow automatically to Schedules M-2 and K-1 but are limited based on the rules described previously. (For more information on the **DIST** screen, see “Entering Distributions” on page 29.)

Line 7 is limited to the lesser of the amount for line 7 or the positive amount from line 6. If line 6 is negative, line 7 is then limited to the positive amount on line 1. If line 1 and line 6 are both negative, line 7 is completely disallowed on the Schedule M-2. Distributions are entered on the **DIST** screen to be reported to the shareholders, regardless of the Schedule M-2 limitation. The AAA cannot be negative as a result of distributions, but it can be negative if it arises from losses.

Column B, Other Adjustments Account

Use column b to enter any amounts you want printed in the corresponding column in the printed return. Officer life insurance and applicable tax-exempt income flows to

Schedule M-2, column b ("Other adjustments account"), line 5. All other amounts (such as expenses) must be entered manually on the **M2** screen.

Column C, Undistributed Taxable Income Previously Taxed

The total of column c cannot be negative. This column is active in an 1120S only if the entity was ever a "C" corporation (thus having earnings and profit (E&P)) or if it was a pre-1983 S corporation. By design, Drake does not allow negative numbers in column c.

If a corporation becomes an S corporation and has net operating losses (NOLs), the NOL is not generated for the return because it cannot be carried to an 1120S (the IRS does not want the NOL to be used by the shareholders to offset income); it either runs out within the years allowable for the NOL by statute or is used if the S corporation terminates its "S" status within those years.

Rental Activities

Income and expenses for rental real estate properties appear on Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation. To make entries in Drake, use the **8825** screen.

If there are multiple 8825 properties, press PAGE DOWN for a new **8825** screen. Use one screen per rental property. If a return has more than one **8825** screen, the program reports each property's information on a separate column of Form 8825 (up to eight properties can be included on a form). Data from all **8825** screens are transmitted to the IRS when the return is e-filed.

NOTE Special steps are required if using the trial balance worksheet for multiple rentals. See "Rental Expenses" on page 51.

Line 14, Depreciation

If the program is calculating depreciation (entered on the **4562** screen) for the property listed on Form 8825, do not enter the depreciation on the **8825** screen. Depreciation should be entered only if it is figured outside of the Drake program, and then the net results should be entered on screen **8825**. The amount entered on line **14** is added to the depreciation calculated from the **4562** screens.

NOTE Form 4562 is required for assets placed in service during the year.

Carrying Information to Form 8825

To indicate that the information should be carried to Form 8825, select **8825** from the **For** drop list on screen **4562**. If there are multiple **8825** screens, use the **Multi-form code** box. For information on using the **Multi-form code** box, see the *Drake Software User's Manual: Tax Year 2011*.

Form 4562

For: 8825
Multi-form code: 3

1120S, COGS, 8825, RENT, F
(1-999; 1 is assumed if left blank)

Description	Date Acquired	Cost / Basis
rental units	01-01-2010	554433

Federal State

Figure 12: In this example, the program will carry the 4562 information to the third 8825 screen created.

Any depreciation information entered on the **4562** screen is carried to the correct Form 8825, based on the form and multi-form code selections at the top of the **4562** detail screens.

IMPORTANT

When selecting a multi-form code, note that the code should refer to an **8825 screen**—not the 8825 *form*. For example, data from the third **8825** screen will be generated on the first Form 8825. To associate an asset with that information, you would enter a 3 for the screen (not a 1 for the form) in the **Multi-form code** box. For more information on Form 8825, see “Viewing Rental Activity Information,” below.

Line 15, Other Expenses (list)

Enter meals and entertainment (subject to 50% limit) in the appropriate field on line 15 of the **8825** screen. To enter additional other expenses, begin typing into the **Additional other expenses** field to open a Detail (CTRL+W) Worksheet. Enter descriptions and amounts on this worksheet.

A statement from each 8825 property is printed with the return and is submitted to the IRS when the return is transmitted.

Use the **K1P** screen to enter rental income the S corporation receives on a K-1. This amount is carried to Form 8825, lines 20a and 20b. No entry is required on the **8825** screen.

Viewing Rental Activity Information

Rental activity data is viewed on the 8825 forms and accompanying statements.

- **8825 Forms** — The two-page Form 8825 can contain information for up to eight rental activities. Each Form 8825 in View mode contains up to eight rental activities. If more are entered, a second Form 8825 is created.

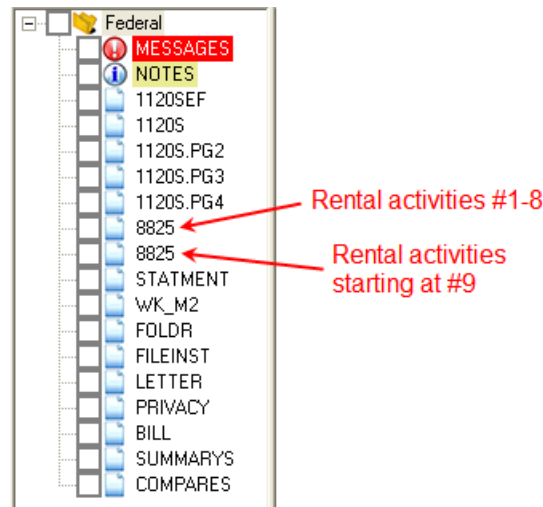


Figure 13: Multiple 8825 pages are created if more than eight rental activities.

The Form 8825 in View mode consists of one or more pages (depending on the number of rental activities) listing up to four rental activities per page. If more than four rental activities are entered, scroll down to the second page of the Form 8825 when viewing.

- **8825 Statements** — Statements are titled **STM_8825_XX**, where XX equals the instance of the **8825** screen. (For example, the statements for the first and second **8825** screens would be labeled **STM_8825_01** and **STM_8825_02**, respectively.) There are also 8825 attachments (**8825_ATT**) for other reporting information.

Credits and Adjustments

Certain credits require an adjustment to either income or expenses. The program carries the required adjustments to the appropriate line of the return and to either Schedule M-1 or Schedule M-3.

Manually reducing the expenses or deductions or increasing the income for these credits causes the return to be out of balance.

Adjustments are made to other income for the credit amounts for the following credits:

- Form 6478, Alcoholic and Cellulosic Biofuel Fuels Credit
- Form 8864, Biodiesel and Renewable Diesel Fuels Credit
- Form 8912, Credit to Holders of Tax Credit Bonds (interest income)

Adjustments are made to the appropriate deduction or expense for the credit amounts for the following credits:

- Form 5884, Work Opportunity Credit
- Form 6765, Credit for Increasing Research Activities
- Form 8820, Orphan Drug Credit

- Form 8845, Indian Employment Credit
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips
- Form 8881, Credit for Small Employer Pension Plan Startup Costs
- Form 8844, Empowerment Zone and Renewal Community Credit
- Form 8912, Credit to Holders of Tax Credit Bonds
- Form 8932, Credit for Employer Differential Wage Payments
- Form 8941, Credit for Small Employer Health Insurance Premiums

Elections

The ability to make certain tax elections is included in the business packages. Elections are selected from the **Return Elections** section of the **ELEC** screen (Figure 14).

The screenshot shows a window titled "Return Elections". It contains several input fields: "Election" (a dropdown menu), "Description", "Cost, basis, amount, years", "Date or year-ending", "Other cost, basis, or amount", "Other date or year-ending", "City", "County", "State" (a dropdown menu), "Other information", and "Explanation".

Figure 14: Return Elections portion of ELEC screen

Making an Election in Drake

To indicate that the S corporation is making an election:

1. Open the **ELEC** screen (accessible from the **Miscellaneous** tab of the **Data Entry Menu**).
2. Make a selection from the **Election** drop list.

The screenshot shows the "Election" dropdown menu open, displaying a list of options:

- 01 - General Election Statement
- 02 - Capitalize and Amortize Circulation Costs over 3 Years
- 03 - Capitalize and Amortize Research and Experimental Expenditures
- 04 - Capitalize and Amortize Intangible Drilling and Development
- 05 - Capitalize and Amortize Mining Development Costs

Figure 15: Election drop list

3. Complete all other fields as applicable. Press F1 in any field to learn if a field is required for your selection and the type of information that may be needed. For example, the help text for the **Other date or year-ending** field shows that the

field is required only for election options 15, 27, 28, 29, and 31, and it explains what, specifically, should be entered for each of these elections.

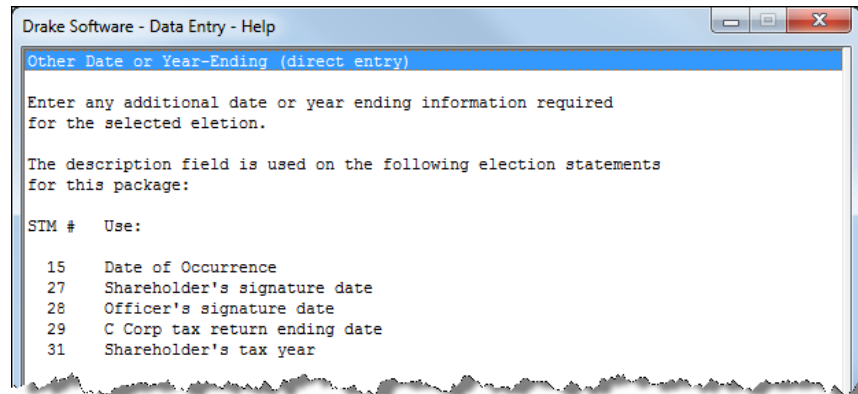


Figure 16: Help text for **Other date or year-ending** field on **ELEC** screen

NOTE

If the election option you selected is not listed in the help text for a field, then that field should be left blank. For example, if you chose election **01 (General Election Statement)**, you would not need to enter anything into the **Date or year-ending** field (help text in Figure 16).

To open a new **ELEC** screen for an additional election, press **PAGE DOWN**.

Election Statements

Once an election is made and the return is calculated, the election information is produced on a statement referenced “STM ELXX,” where “XX” is the number of the election. For example, election 01 (General Election Statement) is generated as “Statement EL01.”

The election statement includes the election title, election wording, and any additional information required for the election, such a date or amount.

Entries for certain fields are sometimes included in the actual election statement; other times, they are included as separate lines. Signature lines are printed as needed on some statements.

Making Changes on the Fly

Use the **PRNT** screen to override program defaults.

Suppressing/Forcing Items

To suppress the printing or production, or force the printing or production of certain documents, go to the **PRNT** screen and select the desired options. Many “on-the-fly” changes override the options established in **Setup**.

1120S Items These items can be “forced” (forcing the program to generate the item) on a return:

- Schedules L and M-1

- Form 4562 (Depreciation and Amortization)
- Next-year depreciation listing
- “Inactive return” printed on first page of the 1120S
- Preparer and officer signature on printed copy of return

The following 1120S items can be “suppressed” (kept from being generated) on a return:

- Schedule M-2
- WK_M2 (Retained Earnings Reconciliation Worksheet)
- Form and worksheet references

NOTE

Form and worksheet references are for the benefit of the preparer and client but are not required for the tax return. References appear on tax forms to clarify which worksheets (available in View mode) correspond to which calculations, and which forms/screens certain amounts are carried from.

K-1 Items The following K-1 items can be “forced” (forcing the program to generate the item) on a return:

- Shareholder’s adjusted basis worksheet (WK_SBAS)
- K-1 codes (page 2 of the Schedule K-1)

The following K-1 items can be “suppressed” (kept from being generated) on a return:

- Related documents: Schedule K-1, K-1 cover letter, K1_ATT worksheet (for K-1 statement overflow), and shareholder’s adjusted basis worksheet (WK_SBAS)
- Marking of “Amended K-1” box on printed Schedule K-1
- K1-DIST worksheet

Overriding Other Setup Options

Filing instructions and envelope coversheets can be either forced or suppressed from the **PRNT** screen to override the global setting in **Setup**.

The **PRNT** screen also includes options to disable autobalance (see “Autobalance” on page 26), calculate the Form 2220 penalty, and prepare an extension (Form 7004) based on the data entered on screen 1 (see “Filing an Extension” on page 14).

Electronic Filing

Steps for e-filing Form 1120S are the same as for e-filing Form 1040, with the exception of bankruptcy returns, which must be paper-filed.

NOTES

S corporations with \$10 million or more in total assets that file 250 or more returns a year are required to e-file their Form 1120S returns.

Every 1099, W-2, 940, and 941 form that is filed is counted as part of the 250-return threshold. For example, if a corporation filing an 1120S return also files 150 W-2 forms, each W-2 would count as a separate return within the 250-return threshold.

Calendar year returns are due on March 15, 2012. Fiscal year returns are due on the 15th day of the third month (two and a half months) after the S corporation's year end. Returns can be e-filed after these dates; however, if an extension has not been filed, penalties and interest are applied.

Additional Return Types

Short-year returns, 52–53-week year returns, and inactive returns can all be e-filed using Drake. For information on how to indicate a short-year return in Drake, see “Short-Year Returns” on page 5. Information on e-filing 52–53-week returns and short-year returns is provided in the following sections.

Electing a 52-53-Week Year (Initial Return)

To elect a 52-53-week year, a *new* entity (one that has never filed a return) must enter data on both screen **1** and the **ELEC** screen.

To elect a 52-53-week year for any entity:

1. In the **If not calendar year** section of screen **1**, enter the **Fiscal year begins** and **Fiscal year ends** dates. Use MMDDYYYY format, as shown in the example in Figure 17.
2. Mark the **52-53-week tax year** box.

Figure 17: In this example, the fiscal year begins 09/29/2011 and ends 09/26/2012 (the Wednesday closest to the end of September), giving the entity a 53-week year for 2011.

NOTE

An entity that has filed returns in the past must complete only steps 1 and 2 of this process. An entity that has never filed a return before must continue with steps 3 through 6.

3. Click the **ELEC** link to open the **Election Options** screen (Figure 18 on page 38).

Figure 18: Elections for 52-53-week tax years

4. For line 1, select the month in which the 52-53-week year ends for the current fiscal year. (01 = January, 02 = February, etc.)
5. For line 2, select the day of the week the tax year always ends.
6. For line 3, enter the actual date that the tax year ends (the same date entered in the **Fiscal year ends** field on screen 1).

NOTE

Once a 52-53-week year is selected, the entity must use that accounting period every year. To change accounting periods, the entity must submit to the IRS Form 3115, Application for Change in Accounting Method.

In subsequent years, only the **52-53-week tax year** check box on screen 1 must be marked; the program automatically updates the dates.

Inactive Returns

Entities that are inactive but are still required to file returns may e-file inactive returns in Drake. To indicate that a return is inactive:

1. Go to the **PRNT** screen, accessible from the **General** tab.
2. Under **Items to Print**, mark the **Print inactive return** box.

When the return is calculated, the program displays the words “Inactive Return” on the main form of the return (specifically, on lines 1c and 2). Zeros are displayed where required by the IRS in order for amounts to be properly included in the e-file data.

NOTE

All EF messages must be cleared in order to e-file an inactive return.

For detailed instructions on e-filing returns in Drake, see *Drake Software User's Manual: Tax Year 2011*.

Common Error Codes

If one or more of the following IRS error reject codes is generated when e-filing an 1120S return, the preparer must contact the IRS for further information. The IRS e-Help Desk telephone number is (866) 255-0654.

- **Reject Code 239** — Filer's TIN and Name Control in the Return Header must match data in the e-File database unless Form 1120S, Item H (2), **Name Change** box is selected.
- **Reject Code 905** — Electronic Filing Identification Number (EFIN) in the Return Header must be listed in the e-File database and in accepted status. If you get this reject code, you must update your e-file application to include the 1120S return

type (Figure 19). This can be done at the IRS website or by calling the IRS e-file Help Desk at (866) 255-0654.

4 Check the individual and/or business form types you will e-file for:

940 941 990 1040 ETD
 1041 1065 1120 1120 POL State Ack

Check the 1120 box for 1120 and 1120S. Check the 990 box for 990, 990-EZ, and 8868. See instructions for additional information on check boxes State Ack and ETD.

Figure 19: The 1120 box must be marked in order to e-file Form 1120S.

Binary Attachments

Binary, or PDF, files can be attached to certain tax forms. These attachments are generally signature or third-party documents such as a copy of a signed lease or a signed appraisal statement. In some instances, the IRS requires that a document be attached to an e-filed return; in other instances, a document can be attached voluntarily to support or explain an entry in the return. In either case, a document must be printed, scanned into the computer (or “saved” as a PDF document), and attached to the return in order to be e-filed with the return.

You can attach PDF files to federal S corporation 1120S returns for e-filing. The **PDF Attachments** screen is accessible from the **Data Entry Menu**.

The PDF Attachment Process

Three main steps are involved in the PDF attachment process in Drake:

1. Creating a PDF document to be attached
2. Informing the program that a PDF document will be sent with the return
3. Attaching the PDF document for e-filing

These steps are described in the following sections.

Creating a PDF File

To create a PDF file:

1. Scan the document to be attached to the return.

TIP

It's a good idea to use the DDM scanning feature for this step.

2. Save the document to your client's DDM file, your computer's desktop, or anywhere you can readily find it.

NOTE

Many types of documents (for instance, documents created in Microsoft Word) can be printed or “saved” as PDF documents if you have a PDF printer (such as Adobe Reader) installed.

Adding PDF Documents in Drake

To indicate in the software that a PDF document will be sent with the return:

1. Open the return in Drake. From the **Data Entry Menu**, click **PDF Attachments** (or type PDF in the selector field and press ENTER).

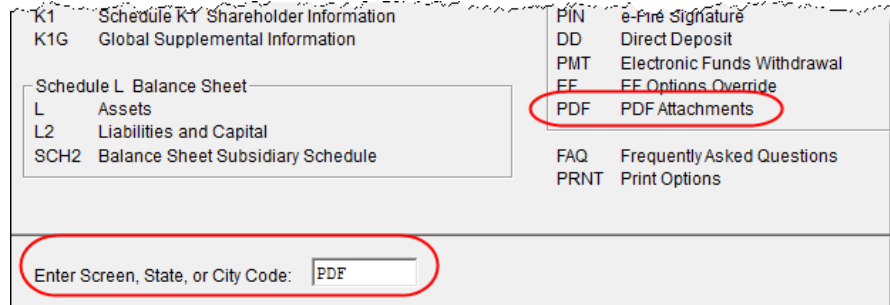


Figure 20: Select **PDF Attachments**, or type PDF into the selector field and press ENTER

2. Fill out the columns on the **PDF Attachments** screen. See Table 3 for examples.

Table 3: PDF Attachment Window Columns

Name of Column	Description	Examples
Reference Source	Name or number of regulation, publication, or form instruction that makes attachments necessary	- IRS Pub xxx-1.4 - Form Instructions for 1120S
Description	Description of form or document to be attached	- Title of house on Oak Street - Appraisal of Lot 1234
File name	Distinctive, easily recognizable file name, followed by ".pdf"	- TitleHouseOakSt.pdf - AppraisalLot1234.pdf

3. Exit the **PDF Attachments** window.

Because you've indicated that a PDF document is attached, the program generates an EF message page regarding the attachment when the return is calculated.

Attaching Documents to the Return

To attach a PDF file to a return:

1. From the return, click **View**. If anything was entered in the **PDF Attachments** window (see "Adding PDF Documents in Drake," previously), there will be two PDF-related items in the **View/Print** window:
 - An **EF Message** (item #1 in Figure 21)
 - An **Attach PDF** button on the toolbar (item #2 in Figure 21 on page 41)

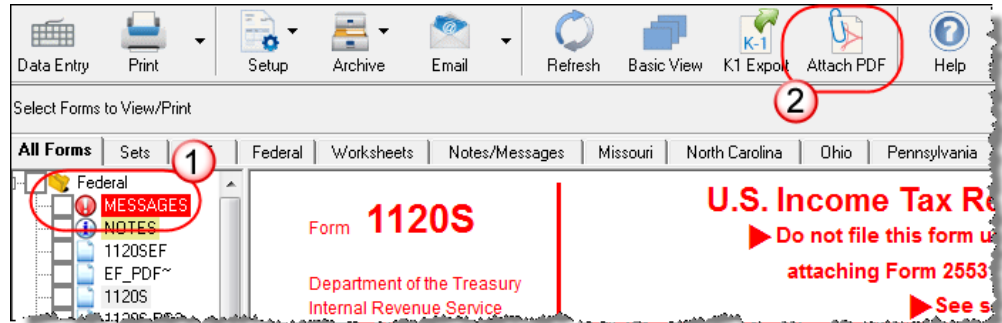


Figure 21: The Message file and the Attach PDF button

2. Click the **Message** file to view EF messages, including information on how to attach the required documents to the return.
3. Click the **Attach PDF** button. The **EF PDF Attachments** window displays the information entered on the **PDF Attachments** window in data entry. A red X means the document has not yet been attached; a green check mark indicates an attached document.

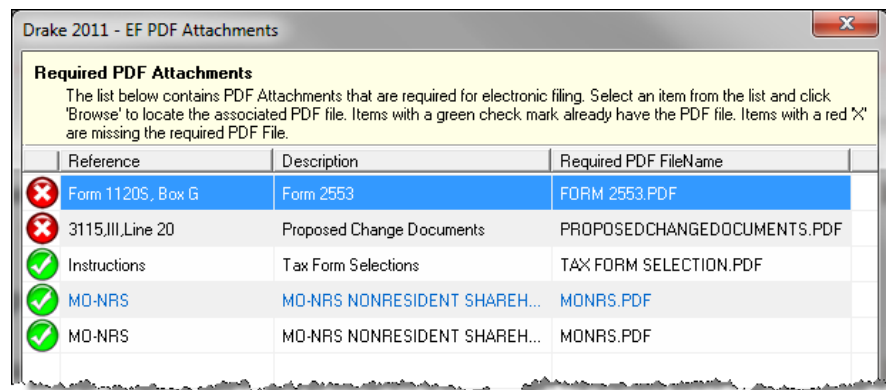


Figure 22: The EF PDF Attachments window

4. Click the row of a document to attach.
5. Click **Browse**.
6. Browse to the proper folder, select the PDF file to attach, and click **Open** (or double-click the file name).

Repeat for all documents with a red X. When all documents have been attached to a completed return, recalculate to clear the EF Message. The return is now ready to be e-filed.

Printing Generated Documents

In some instances, Drake generates a document that must be printed, signed, and scanned back into the computer to be attached to the return. For example, if Form 2553, Election by a Small Business Corporation, is present in an S corporation return, message 1513 is generated when the return is calculated.

1513 ATTACH FORM 2553: The check box for "Attaching Form 2553 as a PDF document" on screen 1 has been marked, but no Form 2553 has been attached. Form 2553 must be prepared and attached before the return can be e-filed.

To prepare Form 2553 for attachment:

1. Ensure that the 2553 screen has been completed in data entry.
2. Calculate the return.
3. In View/Print mode, select and print Form 2553.
4. Have all shareholders sign the form.

To attach the signed Form 2553 to the return:

1. Scan the signed form and save it as a PDF document.
2. Go to View mode of the return.
3. Attach the scanned PDF document to the return using the PDF icon at the top of the screen.

For detailed instructions on attaching this form to a return, go to the FAQ screen and click "Attaching Form 2553 as a PDF Document."

Figure 23: EF message page

As shown in Figure 23, the EF Message states that attachments are required. You would then need to obtain or complete the statements, scan them into the computer, save them as PDF documents, and attach them to the return.

Importing Trial Balance Information

Drake's trial balance import feature allows data to be imported into an 1120S return from a trial balance worksheet. The trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Reduces data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

NOTE A flow chart of the trial balance importing process is available as an appendix at the end of this manual.

Preparing to Use Trial Balance Import

The trial balance import function can be used only on returns that were created in Drake 2008 or later. If you haven't already, create a client file in Drake or update an existing client file from the prior year. Like several other functions of the tax software, this new feature requires Microsoft Excel (version 2000 or later).

In addition, take these actions to ensure the trial balance import works properly:

- **Enable Macros** — The trial balance import function uses macros in Microsoft Excel. Check your Excel settings to ensure that macros are activated and that macro security is set to "medium." To do so, go to **Tools > Options** in Excel and

select the **Security** tab. Click **Macro Security** and select **Medium**, then click **OK**.

NOTE

In Windows 7 and in Microsoft Vista, click the **Office** button in the upper left and then click the **Excel Options** button at the bottom of the window. Next, select **Trust Center** from the list at left, then click the **Trust Center Settings** button. Select **Macro Settings** from the list on the left, then choose **Disable all macros with notification**. Click **OK**.

- **Disable Autobalance** — (optional) When autobalance is disabled, the program is prevented from automatically adjusting the year-end retained earnings or capital amounts, thus allowing you to see any discrepancies in the balance sheet. To disable autobalance, go to the **PRNT** screen and select **Turn off autobalance**.

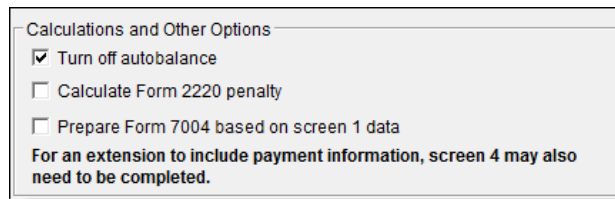


Figure 24: Disable autobalance in the **Calculations and Other Options** section of **PRNT** screen

- **Force Schedule L** — By default, the program does not display the balance sheet amounts on the return if the entity does not meet the filing requirement. If this is the case, you must override the default setting in order to have the amounts shown on Schedule L. To force the Schedule L amounts to be printed, go to the **PRNT** screen and select the **Force-print Schedules L and M-1** box.

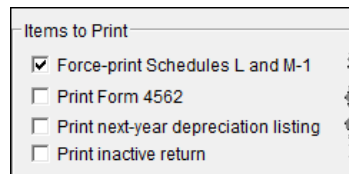


Figure 25: Force Schedule L box for 1120S package

NOTE

Wording of this option varies by return package. The example above is of the **Force-print Schedules L and M-1** box for an 1120S return.

- **Check for Detail Worksheets** — The trial balance import allows only those detail worksheets required by the IRS. Check updated returns for detail (CTRL+W) worksheets that are *not* required. For example, the IRS does not require a detail worksheet for the **Gross receipts** field on the **INC** screen; if a return has a detail worksheet for that field, the trial balance will not be imported correctly into the return. Detail worksheets are indicated by red shading, as shown in Figure 26 on page 44.

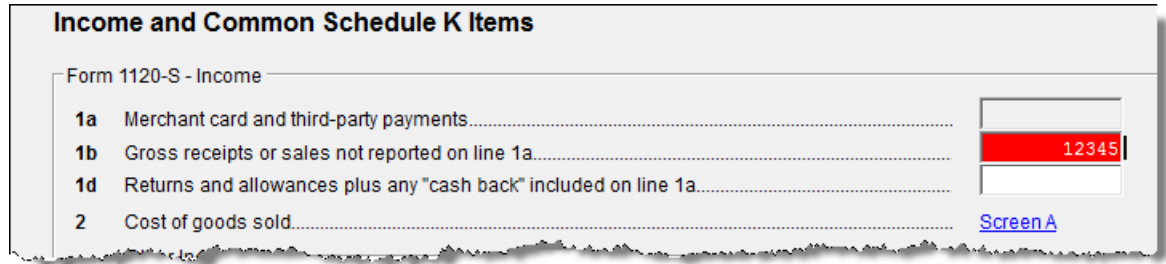


Figure 26: Example of an “unnecessary” detail worksheet

Remove unnecessary detail worksheets prior to import. See “Detail Worksheets” on page 46 for more information on using detail worksheets in the trial balance.

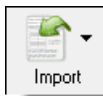
Preparing Financial Data for Import

To prepare the financial data for importing into the return, the data must be entered into Drake’s specially designed trial balance template. Once this information is entered and saved, it can be imported into the return.

Opening a Template

The first step in preparing financial data for importing is to open a trial balance template for the return and enter the financial data.

To open a trial balance template for a return:



1. Open the return to the **Data Entry Menu**.
2. Click **Import > Trial Balance Import** in the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Create New** or **Open Existing**. If opening an existing file, click **Open** after selecting the correct file.
4. If a **Security Warning** box appears, click **Enable Macros**.

NOTE

In Microsoft Vista and Windows 7, you will see a **Security Warning** message with an **Options** button. Click **Options** to open the **Security Options** dialog box, then select **Enable this content**. Click **OK**.

The trial balance template is displayed in Microsoft Excel.

Naming Convention

Whenever a new template is opened, the tax software assigns it a default file location and name. Trial balance templates are saved in the TB folder of your Drake11 software. The file name consists of the client name as entered in Drake, plus “TB” for “trial balance,” plus the “.xls” suffix assigned to all Excel files, as shown in Figure 27.

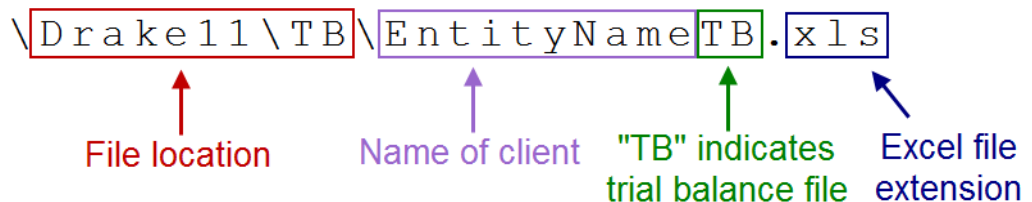


Figure 27: Example of trial balance template file name

To change the name of a file in Excel, select **File > Save As** (in Microsoft Vista and Windows 7, click the **Office** button in the upper-left corner and select **Save As**) and assign the new name.

NOTE If saving a trial balance to a different location, make a note of where you're storing it. The program automatically looks in the default directory.

Template Structure

The trial balance template consists of three title rows and six columns. The **Entity Name** and **Year End** title rows can be edited; double-click a row to change the title. Columns are described in Table 4.

Table 4: Trial Balance Template Columns

Column	Description
Account Title	Title of account
Debit/Credit	Debit and credit amounts
Import to	Screen and line in Drake to which the debit or credit amount is imported
Reported on: Form, Page, Sch, and/or line	Location of the amount on the printed return
Other information	Additional details for preparers; see "Details for Preparers" on page 49.

Displayed at the bottom of the trial balance worksheet are the calculated amount for Schedule M-1, line 1; the credit and debit totals; and a cell showing whether or not the balance sheet is out of balance and, if applicable, the out-of-balance amount (Figure 28; see also Figure 31 on page 47).

Salaries and wages - shareholder employees		\$0	
Waste removal		\$0	
Net Income (Loss) = Schedule M-1, line 1	\$100,600		
Totals		\$549,850	\$549,850
	OUT OF BALANCE?		\$0

Figure 28: Schedule M-1 amount (1); totals (2); and indication of balance (3)

Following are instructions and guidelines for using the trial balance template to assemble financial data for importing into data entry.

Entering Financial Data

When a new trial balance file is opened for a return, all debit and credit amounts are zero (\$0). All data must be entered manually into the template.

NOTE

Some data cannot be imported with the trial balance and must be entered directly into the data entry fields within the program. For more on these categories of data, see "Special Conditions" on page 49.

Direct Entry Most cells in the trial balance worksheet are view-only. In a new template, editable debit and credit cells are indicated by a dollar amount (\$0) and are not gray.

Detail Worksheets Some cells require more detail than can be entered on a single line. These cells are indicated by buttons. (If these cells do not work, you may need to enable them; see the Note in "Opening a Template" on page 44.)

\$0	3, line 7	Form 1120, p.
\$0	does not carry	detail required
\$0	does not carry	detail required
\$0	Book Income Detail (M-1)	requires detail
\$0	Other Income	requires detail
	A, line 2	Form 1120, Sc

Figure 29: Example of cells that require worksheets

Click a worksheet button to open a worksheet in a new tab. Figure 30 shows an example of the "Other Income" worksheet.

Statement Required - Other Income		
Form 1120S, page 1, line 5; INC lines 1-7		
Line Description	Amount	Import to:
1 Amount of credit for tax on fuels (Form 4136)	\$0	INC, line 1
2 Interest income on receivables	\$0	INC, line 2
3 Recoveries of bad debts deducted in earlier years	\$0	INC, line 3
4 Section 481 adjustments	\$0	INC, line 4
5 State tax refund (cash basis)	\$0	INC, line 5
6 Taxable income from insurance proceeds	\$0	INC, line 6
7 Other	\$0	Other Income Detail
Total other income	\$0	

Figure 30 includes callouts: "1" points to the "SBS TB" tab, "2" points to the "Click to return to TB" button, and "3" points to the "Other Income Detail" tab.

Figure 30: Trial balance worksheet for “Other Income”

To return to the previous worksheet, click the **TB** tab (labeled “1” in Figure 30), or click the **Return** button above the worksheet tabs (labeled “2” in Figure 30). Note that a detail tab (the “Other Income” tab in Figure 30) might include one or more detail worksheets (labeled “3” in Figure 30).

NOTE

Do not create detail worksheets in data entry if the trial balance worksheet does not provide an equivalent detail worksheet, or the trial balance will not be imported correctly.

Totals

Totals are displayed at the bottom of each worksheet. If credit and debit columns are out of balance, the worksheet highlights the out-of-balance amount (Figure 31).

Totals	\$12,900	\$4,100
	OUT OF BALANCE?	\$8,800

Figure 31 shows the "OUT OF BALANCE?" cell highlighted in orange.

Figure 31: Out-of-balance amount is highlighted if columns are out of balance.

In addition to credit and debit totals, the main trial balance worksheet shows the net income (loss) to be calculated for line 1 of Schedule M-1 after all entries and adjustments are made in the software.

NOTE

The data cannot be imported if the worksheet is out of balance.

Saving a File

To save a file, click the **Save** icon or select **File > Save** from the menu bar. (In Microsoft Vista and Windows 7, click the **Office** button in the upper-left corner and select **Save**.) To re-name a file when saving, select **File > Save As**. For more information on file names in the trial balance program, see “Naming Convention” on page 44.

Importing Data into a Return

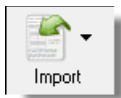
Once a trial balance worksheet has been set up for a client in Drake, the trial balance information can be imported into the program and calculated into the return.

NOTES

Not all trial balance data can be imported directly into a return. For information on program limitations, see “Special Conditions” on page 49.

If you are already in the Trial Balance Import tool for the selected return, go to the **Trial Balance Import** window in Drake and start at Step 3 of the following procedure.

To import a trial balance into a return:



1. Open the return to which you will import the trial balance information.
2. Click **Import > Trial Balance Import** from the menu toolbar. The preliminary **Trial Balance Import** dialog box is opened.
3. Click **Next**.
4. Enter or select the trial balance file to be imported. If necessary, click the button to the right of **1. Import File Name** to browse to the proper folder. By default, each trial balance file is an Excel (.xls) file showing the client name and ending in “TB” for trial balance, as shown in the example in Figure 32. (See “Naming Convention” on page 44.)

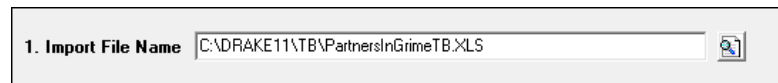


Figure 32: Selected file to import

5. Select the **Trial Balance Additional Import Options**. (See “Additional Import Options” following this procedure.)
6. Click **Next** and wait for the import to be completed.
7. Click **Finish**.

The program returns to the **Data Entry Menu** for the open return. Note that all selected data from the trial balance worksheet has been imported into the return. This can be seen both in the data entry screens and on the generated return.

NOTE

If the program does not calculate the trial-balance information as expected, you can return to the trial balance worksheet, make adjustments, and import the worksheet again.

Additional Import Options

The program can import the following additional information when importing the trial balance data (select the items to import or click **Select All**):

- Buildings & other depreciable assets Accumulated depreciation
- Land Goodwill & other intangible assets
- Accumulated amortization 8825/Rent information

Special Conditions

Some items cannot be entered into the trial balance worksheet and must be typed directly into data entry. Other items should be entered into the worksheet for balance purposes but are not imported to data entry; these must be entered separately and the calculated results compared to the trial balance worksheet.

Details for Preparers

Most items go directly to the location indicated in the program and on the return. For example, the amounts shown in Figure 33 go to Schedule L, line 1, column d in the program and are shown on page 4, Schedule L, line 1, column d of the 1120S return.

Debit	Credit	Import to:	Reported on:
\$420,050		L, line 1, col d	Form 1120S, Sch L, line 1, col d
\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c

Figure 33: Indication of where an amount will go in Drake and on the return

Not all figures are imported directly, however, and some amounts are optional. Use the "Other Information" column to indicate special conditions and additional information regarding certain rows. Table 5 describes the most common notes in this column.

Table 5: "Other Information" Column Notes

Note	Description
not included in totals	The amount is required for importing purposes only but is not included in the totals shown on the trial balance.
does not carry	Information cannot be imported and must be entered on the appropriate screen in Drake. Screen is specified in column to the left of "Other Information."
optional	Amount is optional; not required for import, but could require direct entry in the software.
enter as negative number	Some deficits must be entered as negative numbers.
import includes the calculated change in inventory	Used for "total purchases"; when calculating cost of goods sold (COGS) in the return, the program takes the change in inventory into account for the Form 1125-A calculation.
[Form or Schedule] may be required	Non-financial information must be completed in Drake, in addition to the financial data entered in the worksheet.

All “does not carry” notes are accompanied by further instructions in the column to the left of the “Other Information” column, as shown in Figure 34.

SCH2 Detail Typically, a balance sheet subsidiary schedule (**SCH2** detail screen for Schedule L) is required for an item marked “does not carry” on the trial balance.

Account Title	Debit	Credit	Import to (screen, line):	Form, Page, Sch and/or line	Other Information
Cash	\$0		L, line 1, col d	Form 1120, Sch L, line 1, col d	
U.S. government securities	\$0		L, line 4, col d	Form 1120, Sch L, line 4	
Tax-exempt securities	\$0		L, line 5, col d	Form 1120, Sch L, line 5	
Other current assets	\$0		Other Current Assets Detail	SCH2 detail required in Drake	does not carry
Loans to shareholders	\$0		L, line 7, col d	Form 1120, Sch L, line 7, col d	
Mortgage and real estate loans	\$0		L, line 8, col d	Form 1120, Sch L, line 8, col d	
Other investments	\$0		Other Investments Detail	SCH2 detail required in Drake	does not carry
Buildings and other depreciable assets	\$0		L, line 10a, col c	Form 1120, Sch L, line 10a, col c	optional
Accumulated depreciation	\$0		L, line 10b, col c	Form 1120, Sch L, line 10b, col c	optional

Figure 34: SCH2 screen required for “do not carry” items

To complete an **SCH2** detail screen in data entry:

1. Open the **SCH2** screen in the return.
2. Select the line number from the **SCH2** drop list.
3. Enter the applicable item descriptions and beginning- and end-of-year totals.

To enter details for additional lines of the Schedule L, press PAGE DOWN and repeat steps 2 and 3. Data is saved automatically upon entry.

When the return is produced, the Schedule L of the return reflects both the amounts imported from the trial balance worksheet and the totals of the amounts entered on the **SCH2** screen.

See “The SCH2 Screen” on page 25 for more details on using the **SCH2** screen.

Depreciation S corporation returns can have up to four components of total depreciation:

- COGS
- Real estate rental
- Rental other than real estate
- Any remaining depreciation

For trial balance purposes, enter depreciation amounts directly into the appropriate fields on the trial balance worksheet. Note that, for 1120S trial balances, rental expense detail worksheets are required for **8825** and **RENT** depreciation.

NOTE

Enter **8825** and **RENT** depreciation amounts in the detail worksheets for importing purposes, but be aware that the **8825** and **RENT** screens in the program will have to be edited if **4562** detail screens (see Figure 35) are used.

When the trial balance is imported, the COGS depreciation expense amount flows directly to the appropriate line of Form 1125-A of the return, and the rental depreciation expense amounts flow directly to the appropriate lines of the **8825** and **RENT** screens, as applicable. Because the remaining depreciation can comprise any number of assets, the amount entered on the trial balance does *not* flow to the return. To ensure that each component of the total remaining depreciation is calculated into the return, each asset must be entered on the applicable depreciation screens in data entry (Figure 35).

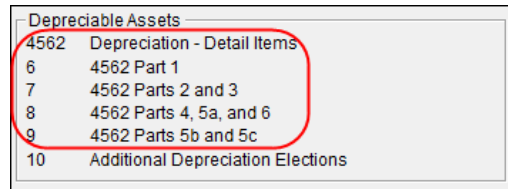


Figure 35: Enter depreciable asset data on a **4562** detail screen, or enter the total depreciation on the override screens (screens **6**, **7**, **8**, and **9**). (Figure is from 1120S data entry menu.)

NOTE

Entering the remainder of the depreciation on the trial balance worksheet helps ensure that the balance sheet balances and provides a way to check that the amount on line 1 of Schedule M-1 is correct. Compare the calculated line 1 at the bottom of the trial balance to the equivalent line on Schedule M-1 of the calculated return. If the depreciation amounts match but the line 1 amounts differ, an M-1 adjustment could be required.

Rental Expenses

The following information applies only to S corporations with multiple rental properties.

The S corporation trial balances include lines for rental income and expenses. Both rental expense items require a trial balance detail worksheet.

Account Title	Debit	Credit	Import to:	Reported on:
Cash	\$0		L, line 1, col d	Form 1120S, Sch L, line 1, col d
Trade and accounts receivable	\$0		L, line 2a, col c	Form 1120S, Sch L, line 2a, col c
Allowance for bad debts		\$0	L, line 2b, col c	Form 1120S, Sch L, line 2a, col c
Tax-exempt interest		\$0	Sch K, line 16a	Sch K, line 16a, Sch M-1, Line 5
Gross real estate rental income		\$0	8825, line 2	Form 8825, line 2
Total real estate rental expenses	\$600		Real Estate Rental Exp	requires detail
Gross other rental income		\$0	RENT, line 1	Rent, Line 1
Total other rental expenses	\$0		Other Rental Exp	requires detail
Gross royalties		\$600	K, line 6	Schedule K, line 6
Capital gains or losses	\$0	\$0	does not carry	detail required on Schedule D

Figure 36: Rental expense rows on an S corporation trial balance worksheet

When imported, the rental expense data entered on the trial balance worksheet appears on either the **8825** screen (if real estate rental) or the **RENT** screen (if rental other than real estate).

Because the trial balance worksheet has only one detail screen per rental type, the importing function does not accommodate entities with multiple rental properties or expenses; however, the following procedure allows the trial balance to remain in balance if there are multiple rental properties or expenses.

To accommodate entities with multiple rental properties or expenses:

1. Calculate the totals for both types of rental expenses.
2. Enter the income totals on the trial balance sheet and the expense totals on the applicable detail sheets (Figure 36).
3. Ensure that the balance sheet is in balance.
4. Import the trial balance worksheet into the return. The applicable screens in data entry now contain the figures entered on the trial balance worksheet.
5. Enter the amounts on additional screens that require details. (For more information on data that cannot be imported, see “Special Conditions” on page 49.)
6. Compare the M-1, line 1 amount on the trial balance to the M-1, line 1 amount on the calculated return to ensure that they match.

NOTE

If the amounts do *not* match, review the imported amounts to ensure that all data was imported. If the data appeared to import correctly, an M-1 adjustment could be necessary.

7. Complete all **8825** or **RENT** screens in data entry, as applicable, for the individual rental properties or items.
8. Delete the **8825** and **RENT** screens that were imported from the trial balance (the screens reflecting the total rental expenses).

NOTE

To delete a screen in data entry, open the screen and press CTRL+D. If a multiple forms list appears, ensure that the screen to delete is selected, then click **Delete**.

Form 3115, Application for Change in Accounting Method

Form 3115, Application for Change in Accounting Method, is an application to the IRS to change either an entity's overall accounting method or the accounting treatment of any item. Drake customers can fill out Form 3115 and related schedules and attachments for corporate returns. This section provides instructions for completing this form and related schedules and attachments in Drake.

In some cases, Form 3115 must still be paper-filed. See “Parts I and III,” starting on page 54, for details.

NOTES

Applicants filing Form 3115 must refer to the Internal Revenue Bulletins (available at www.irs.gov) to determine if the IRS has published an accounting method revenue procedure, revenue ruling, notice, regulation, or other guidance relating to the specific method to be changed. See Pub. 538, Accounting Periods and Methods.

Accessing Screens for Changing Accounting Method

Several screens may be required to complete Form 3115. These screens are accessible from the **Change in Accounting Method** box, located under the first **Other Forms** tab of the **Data Entry Menu** (Figure 37).

Code	Description	Screen Number
F	Farm Income and Expense	7004
N	Schedule N	8027
	Schedule K-1 Received	8082
		8283
K1F	Schedule K-1 from a Fiduciary	8697
K1P	Schedule K-1 from a Partnership	8716
		8752
RENT	Rental (Non-Real Estate)	8821
SS4	Application for Employer ID#	8822
982	Debt Discharge	8825
2220	Underpayment of Estimated Tax	8832
2553	Election as Small Business Corporation	8866
2848	Power of Attorney	8873
		8883
	Change in Accounting Method	8903
3115	Change in Accounting Method	8925
311E	Schedule E	9022
ATT	Explanations and Attachments	
ATT2	Pt II Ln 12 & Pt III Ln 23b Attachment	

Figure 37: Screens for Form 3115, Application for Change in Accounting Method

The screens accessible from the **Change in Accounting Method** section include:

- Screen **3115 (Change in Accounting Method)** — Used to access fields for Form 3115, including Schedules A through D
- Screen **311E (Schedule E)** — Used to request a change in depreciation or amortization methods
- Screen **ATT (Explanations and Attachments)** — Used to create and view certain attachments to be generated by the software
- Screen **ATT2 (Pt II Ln 12 & Pt III Ln 23b Attachment)** — Used to complete certain parts of Form 3115 that require specific attachments

Multi-form Codes

All **3115** and related screens contain a **Multi-form code** text box (shown in Figure 38 on page 54) that allows you to link a screen or attachment to a particular Form 3115.

If submitting more than one Form 3115, assign a multi-form code to each new application you create in Drake. The first should be 1, the second 2, and so on. When using other screens, such as the **311E** or **ATT** screens, you can use those numbers to indicate which instance of Form 3115 the **311E** or **ATT** screen should be associated with; see “Screen 311E Multi-form Codes” on page 59 for more information.

NOTE

If only one Form 3115 is being submitted, you do not need to enter anything in the **Multi-form code** box.

Form 3115 Screens

When you open the **3115** screen from the **Data Entry Menu**, the program displays the first of five **3115** screens. These five screens are:

- **Parts I, III** (Form 3115, Parts I and III)
- **Parts II, IV** (Form 3115, Parts II and IV)
- **A, B, C** (Form 3115, Schedules A, B, and C)
- **D - I, II** (Form 3115, Schedule D, Parts I and II)
- **D - III** (Form 3115, Schedule D, Part III)

As shown in Figure 38, you can access these **3115** screens by clicking a link at the top of any other **3115** screen.

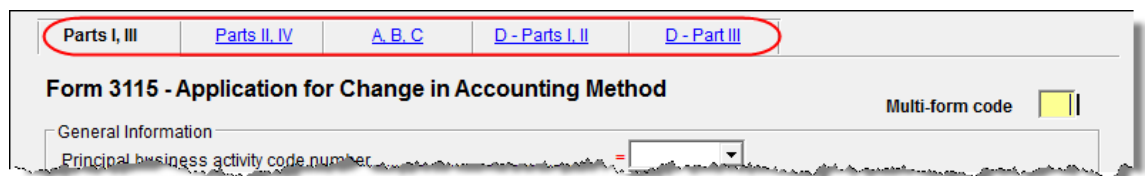


Figure 38: Tab links on **3115** screen

The next few sections of this document provide instructions for completing the various screens for Form 3115 (including Schedules A through D).

Parts I and III Use the **Parts I, III** screen to complete the following sections of Form 3115:

- General Information
- Part I, Information For Automatic Change Request
- Part III, Information For Advance Consent Request

NOTE Information should be entered in either the **Part I** section or the **Part III** section, but not both.

General Information

Complete all applicable fields in the **General Information** section. Note that the fields for business activity and tax-year change are override fields (Figure 39). Complete these fields only if you want to override the equivalent information entered on screen **I** or screen **K**.

Figure 39: Override fields in the **General Information** sections of the **Parts I, III** screen

Part I Not all applicants are eligible to use the automatic change request procedures. After answering 1a, 1b, and 2 in **Part I - Information for Automatic Change Request**, click the blue **Parts II, IV** tab at the top of the screen.

In **Part II – Information for All Requests**, answer question **3** (see Figure 40). If the answer is **Yes**, you are stating that:

- The entity would be required to take the entire amount of the section 481(a) adjustment into account in computing taxable income for the year of change.
- Section 4.02(8) of Rev. Proc. 2002-9 applies to the applicant's accounting method change request, and the applicant is therefore not eligible for a change under automatic change request procedures. (See IRS Form 3115 instructions for details.)

Figure 40: Automatic Change Request information

Part III If this section of the **Parts I, III** screen is filled out, Form 3115 cannot be e-filed with the return. It must instead be paper-filed before submitting the return. A user fee (a check or money order payable to the IRS) must be included with the paper-filed form.

NOTES

See Appendix A of Rev. Proc. 2006-1 for more information. For more on applicants who must apply for advance consent, see the IRS Form 3115 instructions.

Taxpayers filing under an automatic change request procedure do not pay a user fee.

If the applicant qualifies for a *reduced* user fee, put a check mark in the box on line **23b** and go to screen **ATT2** to complete the attachment information in the **Part III, line 23b** section (located in the bottom half of the screen). Include the necessary information or certification required by Rev. Proc. 2010-1 (or its successor).

Specific statements must also be attached to the return if the applicant answers **Yes** for line **18** (“Is change request allowed under automatic change?”) or **No** for line **22** (“All members of consolidated group use proposed method?”). Press F1 in a specific field for more information on attachment requirements. The method for attaching statements in Drake is covered in “Attachments,” starting on page 60.

Parts II and IV

Use the **Parts II, IV** screen to complete the following sections of Form 3115:

- Part II, Information For All Requests
- Part IV, Section 481(a) Adjustment

In addition to the **Multi-form code** text box, this screen consists of the **Part II** and **Part IV** sections. Applicants must complete both sections of this screen. For more on each line (including instructions for required attachments), press F1 in a specific field.

Part II, Line 12 Note that there is no field on the **Parts II, IV** screen for Part II, line 12. Fields for line 12, which should be completed if the applicant is changing *only* the accounting method for a particular item or items, are located in the top half of **ATT2** screen. Use these fields to enter information on:

- The items being changed
- The applicant's present and proposed methods for the items being changed
- The applicant's present overall method of accounting (cash, accrual, or hybrid)

Note that the bottom half of the **ATT2** screen is for completing Part III, line 23b. Only the top half (for Part II, line 12) needs to be completed for Part II, line 12.

Schedules A, B, and C Click the **A, B, C** link from screen **3115** screen to complete the following sections of Form 3115:

- Schedule A, Change in Overall Method of Accounting (screen covers Part 1, Change in Overall Method)
- Schedule B, Change in Reporting Advance Payments
- Schedule C, Changes Within the LIFO Inventory Method (screen covers both Part I, General LIFO Information, and Part II, Change in Pooling Inventories)

NOTE Schedule A, Part II (Change to the Cash Method for Advance Consent Request) requires attachments and is not addressed on the **A, B, C** screen.

Schedule A This section is required for all applicants filing to change their overall method of accounting. It requires the entry of amounts as they were at the close of the tax year preceding the year of the requested change.

NOTE Leave blank any lines that aren't required for the entity's application. In addition, exclude amounts not attributable to the change in method of accounting—for example, amounts that correct a math or posting error, or that correct errors in calculating tax liability.

The IRS requires a worksheet for lines 1a, 1c, 1d, 1e, and 1f of Schedule A. When you enter an amount on any of these lines in Drake, a CTRL+W worksheet is automatically opened, allowing you to begin entering the descriptions and amounts of multiple items for the worksheet. When you close a CTRL+W worksheet, the program returns to the original screen and displays the total in the field. The field is shaded (default is red) to indicate that a CTRL+W worksheet has been used.

NOTE If nothing is entered in a Schedule A field, the program automatically displays the word "NONE" in the field on the generated form.

Schedule B This section has just two lines, both referring to the request for deferral for advance payments:

- **Line 1** — Request change to the deferral method for advance payments (from section 5.02 of Rev. Proc. 2004-34)
- **Line 2** — Request change to the deferral method for advance payments (from section 1.451-5(b)(1)(ii))

See IRS Form 3115 instructions for more information on making these requests.

Schedule C This section has two parts:

- **Part I** (General LIFO Information) — This section is made up of attachment links (see Figure 44 on page 60). If any of the conditions on lines 1–6 match the entity's situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement. (Select the corresponding line code from the **Schedule** drop list on the **ATT** screen.)
- **Part II** (Change in Pooling Inventories) — Enter the descriptions of the contents and the base years of the present and proposed pools. If any of the conditions on lines 2–4 match the entity's situation, click the corresponding attachment link to access the **ATT** screen, where you can complete the required statement.

Schedule D, Parts I and II

Use the **D - I, II** screen to complete the following parts of Form 3115, Schedule D, Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets:

- Part I, Change in Reporting Income From Long-Term Contracts
- Part II, Change in Valuing Inventories Including Cost Allocation Changes

NOTE

If an entity is currently using a LIFO inventory method or submethod and is changing to another LIFO inventory method or submethod, Part II of Schedule D is not applicable. Use Schedule C, Changes Within the LIFO Inventory Method, instead.

Schedule D, Part I

A long-term contract refers to any contract for the manufacture, building, installation, or construction of property that is not completed in the tax year in which it is entered into. Answer the questions in **Part I** that apply to the entity's situation.

Schedule D, Part II

This section concerns changes in the identification and valuation methods of inventories. Note that some lines require attachments. To access the **ATT** screen and complete a required statement, click the desired attachment link.

The items on this part of the screen match the items on the actual Form 3115, Schedule D. For information on completing individual lines, see the Form 3115 instructions.

NOTE

If the entity is unable to furnish a copy of Form(s) 970 (line **5a**), the attachment must include the following statement:

"I certify that to the best of my knowledge and belief (name of applicant) properly elected the LIFO inventory method by filing Form 970 with its return for the tax year(s) ended (insert date(s)) and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3."

**Schedule D,
Part III**

Use the **D - III** screen to complete Part III (Method of Cost Allocation) of Form 3115, Schedule D. Part III is required for any entity submitting either Part I or Part II. Screen **D - III** consists of the following sections:

- Section A, Allocation and Capitalization Methods
- Section B, Direct and Indirect Costs Required to be Allocated
- Section C, Other Costs Not Required to be Allocated

Section A

Click the **D3-1 Attachment** link (see Figure 42) to attach a description of the present and proposed methods used to capitalize direct and indirect costs.

**Sections
B and C**

These sections consist of a series of drop lists under a **Present** column and a **Proposed** column. "Present" refers to the current accounting method, while "proposed" refers to the requested change in accounting methods. You should address only the items necessary; do not make a selection for any item for which an answer is not required for the entity's situation.

For each item in sections **B** and **C**, you can:

- **Select X** — If you select **X**, the corresponding box on Form 3115 will be marked with an **X**. (See Figure 41.)
- **Select B** — If you select **B**, the corresponding box on Form 3115 will be left blank and an attachment will be required explaining why the line was left blank.
- **Select nothing** — If you select neither of the above options, "N/A" will appear in the corresponding box on Form 3115. No attachment is necessary for a box marked "N/A."

are determined by the appropriate tax forms checked, and if those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.)

	Present method	Proposed method
1 Direct material	X	N/A
2 Direct labor		N/A
3 Indirect labor	N/A	N/A
4 Officers' compensation (not including selling activities)	N/A	N/A
5 Pension and other related costs	N/A	N/A
6 Employee benefits	N/A	N/A

Figure 41: X was selected for column 1, line 1; B was selected for column 1, line 2; nothing has yet been selected for any other line. (See also Figure 42.)

To attach a statement for section **B** or **C**, click the **D3-2 Attachment** link at the top of Section B. (See Figure 42.) A single statement may contain all necessary explanations for sections **B** and **C**.

Form 3115 - Schedule D, Part III - Method of Cost Allocation

Section A - Allocation and Capitalization Methods
[D3-1 attachment](#) Allocation and capitalization methods detail.

Section B - Direct and Indirect Costs Required To Be Allocated
[D3-2 attachment](#) Explanation for boxes that are not checked. X=Check, B=Blank, No Selection=N/A

	Present	Proposed
1 Direct material.....	X	
2 Direct labor.....	B	
3 Indirect labor.....		
4 Officers' compensation (not including selling activities).....		

Figure 42: If any box is marked “B,” click the **D3-2 Attachment** link to open the **ATT** screen and complete the fields for an attached statement.

Schedule E

Use screen **311E**, accessible from the **Change in Accounting Method** section of the **Other Forms** tab, to complete Schedule E, Change in Depreciation or Amortization.

NOTE

If changing this method under the automatic change request procedures, see the “List of Automatic Accounting Method Changes” in the IRS Form 3115 instructions.

Screen 311E Multi-form Codes

Unlike the other **3115** screens, screen **311E** contains two multi-form code text boxes:

- **Multi-form code for 3115** — This box is applicable if the return contains more than one Form 3115. Enter the code for the instance of the **3115** screen with which this **311E** screen should be associated.
- **Multi-form code for Sch E** — This box is applicable if the return contains more than one Schedule E. (A separate **311E** screen should be used for each property.) Assign each property a separate code in its **Multi-form code for Sch E**. This code enables you to associate any attachments with the correct Schedule E property. (See “Attachments,” starting on page 60.)

If the return contains more than one Form 3115 and multiple instances of Schedule E, both multi-code fields should contain numbers. Figure 43 shows that the third instance of a Schedule E is to be associated with the second Form 3115 in the return.

Form 3115 - Application for Change in Accounting Method

Schedule E - Change in Depreciation or Amortization

Multi-form code for 3115 Multi-form code for Sch E

Schedule E - Line 4a

Type of property..... Building

Year property was placed in service..... 2003

Property's use: trade or business or income.....

Figure 43: Example of third instance of a Schedule E to be associated with the second instance of a Form 3115.

Completing Schedule E

The **311E** screen consists of four sections:

- **Schedule E - Line 4a** — Enter information on the type of property, the year it was placed in service, and the property's use.
- **Schedule E - Change in Depreciation or Amortization** — This section covers all Schedule E items other than lines 4a and 7. Note that lines **5** and **6** are links to required attachments.
- **Schedule E - Line 7 - Present Method** and **Schedule E - Line 7 - Proposed Method** — For the line 7 sections, enter information on the **Present Method** and **Proposed Method** in the supplied text boxes and choose the applicable convention from the **Applicable Convention** drop list. Options are as follows:
 - **HY** — Half-Year
 - **MM** — Mid-month
 - **MQ** — Mid-quarter
 - **S/L** — Straight line

Attachments

Attached statements are required for many Form 3115 items. Depending on the nature of the attachment, you will attach statements to the form in one of two primary ways:

- **From Data Entry** — The **ATT** screen is the most common screen for attaching statements to Form 3115. The **ATT2** screen is used for Part II, line 12, and Part III, line 23b. (See the “Parts I and III” and “Parts II and IV” sections of this document for more information on completing the **ATT2** screen for these items.)
- **From View Mode** — Used for PDF attachments.

ATT Screen Attachments

There are two ways to access the **ATT** screen in Drake:

- **From the Data Entry Menu** — In the **Change in Accounting Method** section of the **Other Forms** tab, click **ATT**. (See Figure 37 on page 53.)
- **From the line that requires an attachment** — As shown in Figure 44, some lines have attachment links. Click an attachment link to open the **ATT** screen.

Schedule C - Changes Within the LIFO Inventory Method

Part I

1 [C1-a thru C1-h attachments](#) Changing within the LIFO Inventory Method?.....

2 [C1-2 attachment](#) If any present method or submethod is not the same as indicated on Form(s) 970.

3 [C1-3 attachment](#) If the proposed change is not requested for all the LIFO inventory.

4 [C1-4 attachment](#) If the proposed change is not requested for all the LIFO pools.

5 [C1-5 attachment](#) LIFO inventory valued on method other than cost.

6 [C1-6 attachment](#) If changing to the IPIC method.

Part II

1 Change in Pooling Inventories?

Figure 44: Attachment links from Schedule C (screen A, B, C)

NOTE

Not all lines that require statements include a link to the **ATT** screen. Always check the field-level help (click F1 in a field) to determine if a statement is required. The program produces an EF Message if any required statements are missing.

Complete the following **ATT** fields, as applicable, for all **ATT** screen attachments:

- **Multi-form codes** — Use these boxes to associate the attachment with an instance of Form 3115 (if the return contains more than one), a particular Schedule E property (if the return contains more than one Schedule E), or both. (See “Multi-form Codes” on page 53 for more information on multi-form codes.)
- **Schedule** — Select the line of the form or schedule with which the attachment is to be associated. If an item begins with a number, it refers to the part of Form 3115 (for example, **2-4e** refers to Part II, line 4e). If it begins with a letter, it refers to a particular Form 3115 schedule (for example, **C2-b** refers to Schedule C, line 2b; **C2-5** refers to Schedule C, Part 2, line 5).
- **Explanation** — Enter the statement explanation. If the explanation requires more than 900 characters, press PAGE DOWN for a second screen.

NOTE

If the explanation requires more than seven screens, only the first 6,500 characters of the explanation are transmitted with an e-filed Form 3115. There is no character limit for paper-filed returns.

Additional ATT Fields

The **ATT** screen has a separate section, to be used only for Part II, line 10. The IRS requires that the attached statement, in addition to providing an explanation, include the taxpayer's name and ID number. Enter the name and ID number, and indicate if the ID number is an EIN, in the applicable fields at the bottom of the **ATT** screen (Figure 45).

Figure 45: Special section for entering taxpayer name and ID number for Part II, line 10; located at bottom of the **ATT** screen.

PDF Attachments

Some Form 3115 items require the attachment of documents that cannot be created in Drake Software; for example, line 4d of Part II requires written consent from a director. You can, however, attach such a document to the form as a PDF.

See the **PDF** screen for directions on generating and attaching PDFs. Click the Screen Help button for directions on converting other types of documents into PDF.

NOTES

Do not enter data on the **PDF** screen itself. If using the directions provided on that screen, skip Step 2, which instructs you to fill out the columns at the bottom of the **PDF** screen.

A PDF document may be attached using any filename. When you attach the document, the program automatically assigns it the filename required by the IRS.

When the return is generated, an “EF Attachments” worksheet is produced. (See Figure 46.) This worksheet shows, in table format, the **Reference** (section of Form 3115), the **Description**, and the IRS-required **Filename** of each required PDF document. This worksheet is displayed as EF_PDF~ in View mode.

EF_PDF~			(KEEP FOR YOUR RECORDS) EF Attachments
Name of corporation PARTNERS IN GRIME CLEANING			
Reference	Description	Filename:	
3115, III, Line 20 3115, A, I, Line 3	Proposed Change Documents Proposed Change Documents	ProposedChangeDocuments.pdf SchAPartIProfitLossStatements.pdf	

Figure 46: Example of an EF Attachments worksheet

Notices of Missing Attachments

In addition to Form 3115 and related schedules and statements, the program produces EF message pages (as applicable) when the return is calculated. All forms, schedules, EF message pages, and worksheets are accessible from View mode.

EF messages for Form 3115 provide information about required attachments (including PDF attachments) that are missing from the return. Some messages list all statements required for a particular section but do not indicate which statements, specifically, are missing. To best understand which attachments are still required, compare the **ATT** screen and the EF_PDF~ worksheet to the list on the EF message page.

NOTE

All EF messages must be eliminated before the return is eligible for e-file. EF messages for Form 3115 attachments are eliminated when all required statements have been attached to the return.

Appendix A: Trial Balance Import

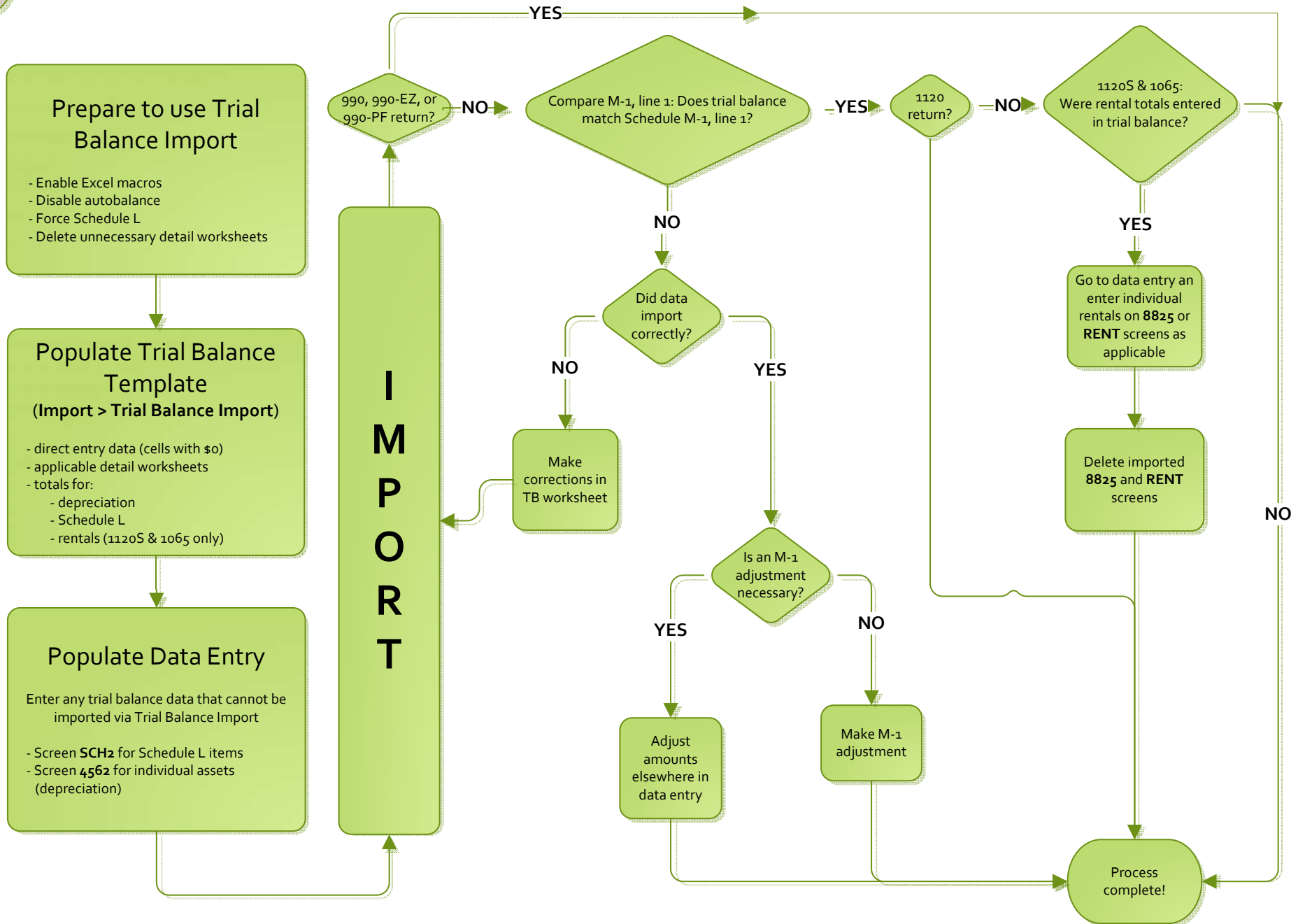
The trial balance import allows data to be imported into a corporate tax return from a trial balance worksheet.

Drake's specially designed trial balance template and importing function has the following benefits:

- Eliminates the need to duplicate entries
- Eliminates data entry errors by automatically importing data to the correct fields
- Allows preparers to merge basic accounting functions with tax preparation

See next page for a flow chart describing the use of the trial balance import.

Trial Balance Import: General Process



Appendix B: Adjustment Worksheet

The Adjustment Worksheet is updated each year to help you understand what happens in the return when certain data is changed through the use of adjustment fields. The following pages contain the 2011 Adjustments worksheet.

These worksheets are also available through the **FAQ** screen. To access them, open the **FAQ** screen, click the **Screen Help** button (or press CTRL+ALT+?) and click the links at the top of the window.

Adjustments Worksheet

Adjustment Location		Location of Information Being Adjusted
Screen/Line	Field Name	
1120S		
INC - Income and Common Schedule K Items		
4	Schedule K: Most Common Items : Interest income	Adjusts the amount that flows from Form 6252.
16c	Schedule K: Most Common Items : Nondeductible expenses - other	Adjusts the calculated nondeductible expenses and limitations.
DED - Deductions		
14a	Depreciation	Adjusts the amount that flows from Form 4562 calculations.
14b	Depreciation claimed elsewhere on return (Other than Schedule A)	Adjust the amounts carried to or entered elsewhere in the return, such as the Schedule A, line 5.
15	Depletion (do not deduct oil and gas depletion)	Adjusts the amount entered on the K1F screen, line 9, code B.
18	Employee benefit programs	Adjusts the amount that flows from Schedule F, line 17 to this line.
13	Interest expense	Adjusts the amount that flows from Schedule F, lines 23 (a) and 23(b).
17	Pension, profit-sharing, and other plans	Adjusts the amount that flows from Schedule F, line 25.
9	Repairs and maintenance	Adjusts the amount that flows from Schedule F, line 27.
11	Rents	Adjusts the amount that flows from Schedule F, lines 26 (a) and 26(b).
8	Salaries and wages paid to non-shareholder employees	Adjusts the amount that flows from Schedule F, line 24.
11	Other miscellaneous taxes	Adjusts the amount that flows from Schedule F, line 31
Tax & Payments Worksheet for Line 22a		
1	Gross receipts for the tax year	Adjusts the combined amounts of gross receipts entered on screen 3 and Schedule F.
2	Passive investment income	Adjusts amounts entered on Schedule K for royalties, rents, dividends, interest, annuities.
5	Deductions directly connected with passive income on line 2	Adjust amounts calculated from entries on Schedule K for line 12b and for line 12d, codes I, K and L.
Form 1125-A - Cost of Goods Sold		
1	Inventory at beginning of year	Adjusts amount coming from Schedule F, line 46.
2	Purchases	Adjusts amount coming from Schedule F line 47.
7	Inventory at end of year	Adjusts amount coming from Schedule F, line 49.
Schedule K - Shareholders' Pro Rata Share Items (Screen 1 of 2)		
4	Interest income	Adjusts interest income flowing from the income and deductions screen (screen 3), Form 6252, screen K1P , line 5 and screen K1F , line 1.
5a	Total ordinary dividends	Adjusts ordinary dividends flowing from screen 3, the K1P screen, line 6a, and from the K1F screen, line 2a.
5b	Qualified dividends	Adjusts qualified dividends flowing from screen 3 , the K1P screen, line 6b. and from the K1F screen, line 2b.
6	Royalty Income	Adjusts amounts entered on K1P screen, line 7.
8b	Collectibles (28%) gain (loss)	Adjusts amounts flowing from the K1P screen, line 9b, and the K1F screen, line 4b.
10A	Other portfolio	Adjusts amounts flowing from the K1P screen, line 11, code A and the K1F screen, line 5.
10B	Involuntary conversions	Adjusts amounts flowing from the K1P screen, line 11, code B.
10D	Mining exploration costs recapture	Adjusts amounts flowing from the K1P screen, line 11, code D.
10E	Other income (loss)	Adjusts amounts being carried from screen K1P , line 11, code F; and K1F screen, line 11, code D.
12a A	Cash contributions (50%)	Overrides amounts flowing from screen 3 and from the K1P screen, line 13, code A.
12a B	Cash contributions (30%)	Adjusts amounts flowing from the K1P screen, line 13, code B.

Adjustments Worksheet

Adjustment Location		Location of Information Being Adjusted
Screen/Line	Field Name	
1120S		
12a D	Noncash contributions (30%)	Adjusts amounts flowing from the 8283 screen and from the K1P screen, line 13, code D.
12a E	Capital gain property to a 50% organization (30%)	Adjusts amounts flowing from the K1P screen, line 13, code E.
12a F	Capital gain property (20%)	Adjusts amounts flowing from the K1P screen, line 13, code F.
12a G	Cash contributions (100%)	Adjusts amounts flowing from the K1P screen, line 13, code G.
12b H	Investment interest expense	Adjusts amounts flowing from the K1P screen, line 13, code H.
12c J	Section 59(e)(2) expenditures	Adjusts amounts flowing from the K1P screen, line 13, code J.
12d I	Deductions - royalty income	Adjusts amounts flowing from the K1P screen, line 13, code I.
12d K	Deductions - portfolio (2% floor)	Adjusts amounts flowing from the K1P screen, line 13, code K.
12d L	Deductions - portfolio (other)	Adjusts amounts flowing from the K1P screen, line 13, code L.
12d M	Preproductive period expenses	Adjusts amounts flowing from the K1P screen, line 13, code P.
12d N	Commercial revitalization deduction from real estate	Adjust amounts flowing from the K1P screen, line 13, code Q.
12d O	Reforestation expense deduction	Adjust amounts flowing from the K1P screen, line 13, code S.
12d S	Other deductions	Adjusts amounts flowing from screen K1P , line 13, code W.
13d	Other rental real estate credits	Adjusts amounts flowing from the K1P screen, line 15, code F.
13e	Other rental credits	Adjusts amounts flowing from the K1P screen, line 15, code G.
13g H	Undistributed capital gains credit	Adjusts amounts flowing from the K1P screen, line 15, code H.
13g P	Other credits	Adjust amounts flowing from various credit forms without specific K1 codes and the K1P screen, line 15, code P.
Schedule K - Shareholders' Pro Rata Share Items (Screen 2 of 2)		
14b	Gross income from all sources	Adjust amounts flowing from the K1P screen, line 16, code B.
14c	Gross income sourced at shareholder level	Adjust amounts flowing from the K1P screen, line 16, code C.
14d	Passive category	Adjusts amounts flowing from the K1P screen, line 16, code D.
14e	General category	Adjusts amounts flowing from the K1P screen, line 16, code E.
14f	Other	Adjusts amounts flowing from the K1P screen, line 16, code F.
14g	Interest expense	Adjusts amounts flowing from the K1P screen, line 16, code G.
14h	Other	Adjusts amounts flowing from the K1P screen, line 16, code H.
14i	Passive category	Adjusts amounts flowing from the K1P screen, line 16, code I.
14j	General category	Adjusts amounts flowing from the K1P screen, line 16, code J.
14k	Other	Adjusts amounts flowing from the K1P screen, line 16, code K.
14l	Foreign taxes paid	Adjusts amounts flowing from the K1P screen, line 16, code L and the K1F screen, code B.
14l	Foreign taxes accrued	Adjusts amounts flowing from the K1P screen, line 16, code M.
14m	Reduction in taxes available for credit	Adjusts amounts flowing from the K1P screen, line 16, code N.

Adjustments Worksheet

Adjustment Location		
Screen/Line	Field Name	Location of Information Being Adjusted
1120S		
14n O	Foreign trading gross receipts	Adjusts amounts flowing from Form 8873, line 15, the K1P screen, line 16, code O, and the K1F screen, line 14, code G.
14n P	Extraterritorial income exclusion	Adjusts amounts flowing from form 8873 line 52, and the K1P screen, line 16, code P.
14n Q	Other foreign transactions	Adjusts amounts flowing from the K1P screen, line 16, code Q.
15a	Post-1986 depreciation adjustment	Adjusts the calculated difference between the current depreciation and AMT depreciation totals on the Federal Depreciation Listing, amounts flowing from K1P screen, line 17, code A, or the K1F screen, line 12, code A or G.
15b	Adjusted gain or loss	Adjusts amounts flowing from K1P screen, line 17, code B or the K1F screen, line 12, code C-F.
15c	Depletion (other than oil and gas)	Adjusts amounts flowing from K1P screen, line 17, code C, or the K1F screen, line 12, code H.
15d	Gross income from oil, gas, and geothermal	Adjusts amounts flowing from K1P screen, line 17, code D.
15e	Deductions from oil, gas, and geothermal	Adjusts amounts flowing from K1P screen, line 17, code E.
15f	Other AMT items (attach schedule)	Adjusts amounts flowing from K1P screen, line 17, code F, and K1F screen, line 12, codes I and J.
16a	Tax-exempt interest income	Adjusts amounts flowing from K1P screen, line 18, code A, and from the K1F screen, line 14, code A.
16b	Other tax-exempt income	Adjusts amounts flowing from the bottom of screen 3, line 16b, and from K1P screen, line 18, code B.
16c	Nondeductible expenses	Adjusts amounts flowing from the bottom of screen 3, line 16c, and from K1P screen, line 18, code C.
16c	Officer life insurance premiums	Adjusts amounts flowing from the bottom of screen 3, line 16c.
17a	Investment income	Adjusts amounts flowing from the K1P screen, line 20, code A.
17b	Investment expenses	Adjusts amounts flowing from the K1P screen, line 20, code B.
17d H	Recapture of other credits	Adjusts amounts flowing from the K1P screen, line 20, code I.
17d K	Dispositions of property with section 179 deductions	Adjusts the amounts flowing from the WK_179, net gain or loss on sale of an asset subject to section 179, and the K1P screen, line 20, code L.
17d L	Recapture of section 179 deduction	Adjusts amounts flowing from Form 4797, line 35 and K1P screen, line 20, code M.
17d M	Section 453(l)(3) information	Adjusts amounts flowing from the K1P screen, line 20, code O.
17d N	Section 453A(c) information	Adjusts amounts flowing from the K1P screen, line 20, code P.
17d O	Section 1260 (b) information	Adjusts amounts flowing from the K1P screen, line 20, code Q.
17d P	Interest allocable to production expenditures	Adjusts amounts flowing from the K1P screen, line 20, code R.
17d Q	CCF nonqualified withdrawals	Adjusts amounts flowing from the K1P screen, line 20, code S.
17d R	Information needed to figure depletion - oil and gas	Adjusts amounts flowing from the K1P screen, line 20, code T.
17d S	Amortization of reforestation cost	Adjusts amounts flowing from the K1P screen, line 20, code U.
17d U	Other information	Adjusts amounts flowing from the K1P screen, line 20, code V or W.
Shareholder's Adjusted Basis Worksheet		
7a	Nondeductible expenses and credit adjustments	Adjusts the calculated amount from the WK_SBAS, page 2, current-year losses and deductions, line 7a.
Schedule M-1 - Reconciliation of Income (Loss) per Books with Income per Return		
2	Income recorded on Sch K, lines 1,2,3c,4,5a,6,7,8a,9 and 10 not on books	Adjust the amounts coming from Forms 6478 and 8864.

Adjustments Worksheet

Adjustment Location			Location of Information Being Adjusted
Screen/Line	Field Name		
1120S			
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (or 14m): Other	Adjust amounts credit adjustments made from Forms 5884, 6765, 8820, 8844, 8845, 8846, 8881, nondeductible expenses entered on the bottom of screen 3 for line 16c and amounts entered on K3 screen for line 16c for nondeductible expenses and officer life insurance premiums.	
5	Income recorded on books not included on Schedule K, lines 1 through 10: Other	Adjust the amounts entered on screen 3, line 16b and from Schedule K screen, line 16b for officer life insurance proceeds.	
Schedule M-2 - Analysis of Accumulated Adjustments Account			
3 (a)	Other additions	Adjusts the amounts that flow from Schedule K, line 10	
3 (b)	Other additions	Adjusts amounts flowing from screen 3, line 16b, officer life insurance proceeds and amounts entered on Schedule K, line 16b for tax exempt interest.	
5 (a)	Other reductions	Adjusts the sum of the amounts coming from Schedule K, line 11, Schedule K, line 12d (Other Deductions) S; and Schedule K, line 16c (Nondeductible expenses).	
5 (b)	Other reductions	Adjusts amounts from screen 3, line 16c or Schedule K (screen 3), line 16c (Officer life insurance premiums).	
7 (a)	Non-dividend distributions	Adjusts amounts from screen 3, line 16d, and from Schedule K, line 16d, subject to limitations due to negative amounts on line 6 or both lines 6 and 1.	
4562 Part 1			
10	Carryover of disallowed deduction from prior year	Adjusts amounts from the 4562 screen.	
Form 5884 - Work Opportunity Credit			
3	Work opportunity credit from pass-through entities	Adjusts amounts from K1P screen, line 15, code J and K1F screen, line 13, code F.	
Form 6478 - Alcohol and Cellulosic Biofuel Fuels Credit			
8	Pass-through credit from other entities	Adjusts amounts from K1P screen, line 15, code I, and K1F screen, line 13, code H.	
Form 6765 - Credit for Increasing Research Activities			
37	Pass-through research credits	Adjusts amounts from K1P screen, line 15, code M and K1F screen, line 13, code I.	
Form 8820 - Orphan Drug Credit			
3	Orphan drug credit(s) from pass-through entities	Adjusts amounts from K1F screen, line 13, code M.	
Form 8826 - Disabled Access Credit			
7	Disabled access credits from pass-through entities	Adjusts amounts from K1P screen, line 15, code K.	
Form 8844 - Empowerment Zone Employment Credit			
3	Form 8844 credits from pass-through entities	Adjusts amounts from K1P screen, line 15, code L and K1F screen, line 13, code K.	
Form 8846 - Credit for Employer SS and Medicare Taxes Paid on Certain Employee Tips			
5	Form 8846 credits from pass-through entities	Adjusts amounts from K1P screen, line 15, code N.	
Form 8864 - Biodiesel Fuels Credit			
9	Biodiesel and renewable diesel fuels credit from pass-through entities	Adjusts amounts from K1F screen, line 13, code O.	
8882 - Credit for Employer-Provided Childcare Facilities and Services			
5	Amount	Adjusts amounts from K1F screen, line 13, code N.	
Form 8907 Nonconventional Source Fuel Credit			
12	Nonconventional source fuel from partnerships, S corporations, estates and trusts	Adjusts amounts from K1F screen, line 13, code P.	
Form 8909 Energy Efficient Appliance Credit			
24	Energy-efficient appliance credit from partnerships, S corporations, estates, trusts, and cooperatives	An entry here adjusts amounts being carried from the K1F screen, line 13, code S.	
Schedule F - Farm Income (Informational Purposes Only)			
10	Car and truck expenses	Adjusts amount being carried from screen 9 calculations for automobile expenses.	
14	Depreciation	Amount is carried from Form 4562 calculations.	
RENT - Rental Other than Real Estate			

Adjustments Worksheet

Adjustment Location		Location of Information Being Adjusted
Screen/Line	Field Name	
1120S		
15	Depreciation	Adjusts depreciation amounts calculated by the program from entries on the 4562 screens.
Form 8825 - Rental Real Estate		
14	Depreciation	Adjusts the depreciation calculated from the 4562 screens
Form 8903 - Domestic Production Activities Deduction		
7	Qualified production activities income from pass-through entities	Adjusts amounts from K1P screen, line 13, code U, and K1F screen, line 14, code C.
17	Form W-2 wages from pass-through entities	Adjusts amounts from K1P screen, line 13, code V, and K1F screen, line 14, code D.

Appendix C: Override Worksheet

The Override Worksheet is updated each year to help you understand what happens in the return when certain data is changed through the use of override fields. The following pages contain the 2011 Override worksheet.

These worksheets are also available through the **FAQ** screen. To access them, open the **FAQ** screen, click the **Screen Help** button (or press CTRL+ALT+?) and click the links at the top of the window.

Overrides Worksheet

Override Location		
Screen/Line	Field Name	Location of Information Being Overridden
1120S		
1 S Corporation General Information screen		
Item I	Number of shareholders at tax-year end	Overrides number of K1 screens in return.
	Preparer fee	Overrides the system's fee calculation
	Firm #	Overrides the program default setting (1).
	Preparer #	Overrides the program default setting (1).
	Data entry op #	Overrides the login name.
	ERO number	Overrides the selection made from the ERO SSN Indicator drop list at Setup > Options, EF tab.
DED - Deductions		
	Insurance	Overrides the other insurance amounts below.
1	State income taxes	Overrides state income taxes calculated from information entered on ES screen using code IN.
2	State franchise taxes	Overrides state franchise taxes calculated from information entered on ES screen using code FR..
Tax & Payments (bottom of page 1 of Form 1120S)		
23a	Current-year estimated tax payments	Overrides payments made as entered on ES screen.
23b	Tax deposited with Form 7004	Overrides amount entered on 7004 screen: Amount paid with extension.
27	Amount to be credited to next year's estimated tax	Overrides overpayment amount as entered on ES screen.
Form 1125-A - Cost of Goods Sold		
5	Depreciation	Overrides calculated amount for entries on 4562 detail screen directed to the COGS in the Form selection box.
Schedule K-1 - Shareholder's Share of Income, Credits, Deductions, etc.		
		Amounts entered on the K1 screen override the amounts automatically calculated by the K screen.
Shareholder's Adjusted Basis Worksheet		
5	Less: Non-taxable distributions	Overrides the calculations from Schedule K or the overrides in Schedule K-1.
15	Loans repaid by corporation during the year	Overrides the calculations from Schedule K or the overrides in Schedule K-1.
9	Allowed Decreases for Losses and Deductions Items a-p	Overrides the calculations for column F of shareholder's basis worksheet, page 2.
7a	Nondeductible expenses and credit adjustments	Overrides the calculations for column F of shareholder's basis worksheet, page 2.
7b	Oil and gas depletion	Overrides the calculations for column F of shareholder's basis worksheet, page 2.
Schedule L - Balance Sheet - Assets		
3(b)	Inventories	Overrides entries from screen A - Cost of Goods Sold, line 1 Inventory at beginning of year.
3(d)	Inventories	Overrides entries from screen A - Cost of Goods Sold, line 7 Inventory at end of year.
10a (a)	Depreciable assets	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
10a (c)	Depreciable assets	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
10b (a)	Less accumulated depletion	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
10b (c)	Less accumulated depletion	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
12 (b)	Land	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
12 (d)	Land	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
13a (a)	Intangible assets	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
13a (c)	Intangible assets	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
13b (a)	Less accumulated amortization	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).
13b (c)	Less accumulated amortization	Overrides calculations from on the 4562 detail screen or the Subsidiary Schedule for the Balance Sheet (SCH2 screen).

Overrides Worksheet

Override Location		
Screen/Line	Field Name	Location of Information Being Overridden
1120S		
Schedule M-1 - Reconciliation of Income (Loss) per Books with Income per Return		
3	Expenses recorded on books this year not included on schedule K, line 1-12 and 14I (or m)	Overrides the amounts carried from the Schedule K, lines 1-12 and 14I (or m).
6	Deductions included on Schedule K line 1 through 12 and 14I (or 14m), not charged against book income this year	Overrides the amounts carried from the Schedule K, lines 1-12 and 14I (or m).
Schedule M-2 - Analysis of Accumulated Adjustments Account...		
7	Non-dividend distributions	Overrides the amount that flows from Schedule K (screen 3), line 17c.
Schedule M-3 - Net Income/Loss Reconciliation		
2	Income statement period, Beginning	Overrides default calendar year dates or fiscal year dates entered on screen 1
2	Income statement period, Ending	Overrides default calendar year dates or fiscal year dates entered on screen 1
Electronic Funds Withdrawal Information		
	Federal payment amount	Overrides line 25 of Form 1120S, or Form 7004, line 8 (software calculated)
	Federal: Requested Payment date	Overrides federal return due date.
	Federal: daytime phone number	Overrides phone number entered on screen 1 (General Info)
Print Options		
	Print general filing instructions	An entry here overrides the selection on Setup > Options, Optional Documents tab for printing the federal return.
	Print state filing instructions	An entry here overrides the selection at on Setup > Options, Optional Documents tab for printing the state return.
	Print S Corporation's envelope coversheet	An entry here overrides the option that was entered in on Setup > Options, Optional Documents tab for the S corporation envelope coversheet.
	Print IRS envelope coversheet	An entry here overrides the option that was entered on Setup > Options, Optional Documents tab for the IRS envelope coversheet.
	Print state envelope coversheet	An entry here overrides the option that was entered on Setup > Options, Optional Documents tab for the state envelope coversheet.
	Print city envelope coversheet	An entry here overrides the option that was entered on Setup > Options, Optional Documents tab for the city envelope coversheet.
	Date to print on returns	Overrides the default date on the "Paid Preparer" line at the bottom of the 1120, page 1.
	Due date to print on letter and filing instructions	Overrides the default due date that is printed on letters and filing instructions
	Total assets on Form 1120S, page 1, line F	Overrides the calculated amount on Form 1120, page 1, line F.
	IRS Center	Overrides the IRS Center address generated from screen 1.
Form 2439 - Notice to Shareholder of Undistributed Long-Term Capital Gains		
	Federal ID number	Overrides entry on screen 1.
	Regulated investment company's name, in-care-of name (if needed) address, city, state, and ZIP code	Overrides entry on screen 1.
	Fiscal Year beginning/ending	Overrides default calendar year dates or fiscal year dates entered on screen 1
	Shareholder's name, in-care-of name (if needed) address, city, state, and ZIP code	Overrides entries on the K1 Shareholder Information screen
4562 Detail		
	Override regular depreciation, Federal	Overrides the system calculation for the "Current depr" column of the Depreciation Detail Listing.
	Override regular depreciation, AMT (if different)	Overrides the system calculation for the "AMT Current" column of the Depreciation Detail Listing.
	Override regular depreciation, Book (if different)	Overrides the calculated book amount.
	179 expense elected this year, Federal	Overrides Form 4562, Part I, line 6, column (c) and the amount for the WK_S179L
	179 expense elected this year, Book (if different)	Overrides the calculated book amount and the amount for the WK_S179L..

Overrides Worksheet		
Override Location		
Screen/Line	Field Name	Location of Information Being Overridden
1120S		
	179 expense ALLOWED this year, Federal	Overrides Form 4562 line 12 (If Method M is chosen there must be an entry made on line 179 expense elected this year or Method EXP must be used). Overrides amount calculated for WK_S179L.
	179 expense ALLOWED this year, Book (if different)	Overrides the calculated book amount and the amount for the WK_S179L.
"Force convention"	Placed in Service and Like-Kind Exchange Info	Overrides convention determined by the dates of assets placed in service during the year.
"Do not use MACRS % tables"	Placed in Service and Like-Kind Exchange Info	Overrides how the system calculates depreciation for the "Life" and "Method" columns of the Depreciation Detail Listing.
4562 Part 1		
1	Maximum amount if greater than \$500,000	Overrides the maximum of 179 expense for 2011 of \$500,000 on line 1 of Form 4562
2	Total cost of sec 179 property placed in service in current year	Overrides the software calculated amount of section 179 property placed in service during the tax year.
19	Total business income, Federal	Overrides line 5 on WK_s179L
Form 3468 Computation of Investment Credit		
5a	Qualifying advanced coal project credit, Basis of investment in gasification for section 49A(d)(3)(B)(i) projects	Overrides the cost entered on the 4562 detail screen as determined by the code (CA) entered in the Investment credit code drop list .
5b	Qualifying advanced coal project credit, Basis of investment in coal-based generation for section 49A(d)(3)(B)(ii) projects	Overrides the cost entered on the 4562 detail screen as determined by the code entered in the Investment credit code drop list .
6b	Qualifying gasification project credit, Basis of investment property not included in (a) above	Overrides the cost entered on the 4562 detail screen as determined by the code entered in the Investment credit code drop list .
11e	Rehabilitation property, Pre-1936 buildings in the Gulf Opportunity Zone	Overrides the cost entered on the 4562 detail screen as determined by the code (RA) entered in the Investment credit code drop list .
11g	Rehabilitation property, Other pre-1936 buildings	Overrides the cost entered on the 4562 detail screen as determined by the code (RB) entered in the Investment credit code drop list .
11h	Rehabilitation property, Certified historic structures in the Gulf Opportunity Zone	Overrides the cost entered on the 4562 detail screen as determined by the code (RC) entered in the Investment credit code drop list .
11j	Rehabilitation property, Other certified historic structures	Overrides the cost entered on the 4562 detail screen as determined by the code (RD) entered in the Investment credit code drop list .
12a	Energy Credit, Basis of property using geothermal energy placed in service during 2009	Overrides the cost entered on the 4562 detail screen as determined by the code (EA) entered in the Investment credit code drop list .
12b	Energy Credit, Basis of property using solar illumination or energy placed in service during 2009	Overrides the cost entered on the 4562 detail screen as determined by the code (EB) entered in the Investment credit code drop list .
12c	Energy Credit, Qualified fuel cell property: Basis of property installed	Overrides the cost entered on the 4562 detail screen as determined by the code (EC) entered in the Investment credit code drop list .
12i	Energy Credit, Qualified microturbine property: Basis of property installed	Overrides the cost entered on the 4562 detail screen as determined by the code (ED) entered in the Investment credit code drop list .
Form 6478 - Alcohol and Cellulosic Biofuel Fuels Credit		
2	Alcohol 190 proof or greater	Overrides the default rates. Refer to form instructions.
3	Alcohol less than 190 proof	Overrides the default rates. Refer to form instructions.
4	Qualified cellulosic biofuel produced after 2008 that is alcohol	Overrides the default rates. Refer to form instructions.
Form 8609 - Low-Income Housing Credit Allocation & Certification		
2	Schedule A - Annual Statement, Override of computed rate	Overrides computed rate on Form 8609A, Part II, line 2.
8845 - Indian Employment Credit		
5	Form 8845 credits from pass-through entities	Overrides amounts from K1F screen, line 13, code L.
Schedule K-1 for 1065 (K-1 P)		

Overrides Worksheet

Override Location		
Screen/Line	Field Name	Location of Information Being Overridden
1120S		
	For section 179 Use Only, 2010 179 exp allowed	Overrides the allowed amount calculated on the WK_S179L worksheet.
	For section 179 Use Only, 2009 179 exp allowed	Overrides the allowed amount calculated on the WK_S179L worksheet.
	Current year QRP 179 exp allowed	Overrides calculated amount.
SS-4 - Application for Employer Identification Number		
	County & state	Overrides the county and state entered on screen 1.
	Date business started/acquired	Overrides the date entered on screen 1.
Form 982 - Reduction of Tax Attributes Due to Discharge of Indebtedness		
	Beginning of tax year	Overrides default calendar year dates or fiscal year dates entered on screen 1
	End of tax year	Overrides default calendar year dates or fiscal year dates entered on screen 1
	State of Incorporation	Overrides entry made on screen 1 (General Info).
Form 2220 - Underpayment of Estimated Tax (Screen 1 of 2)		
10	OVERRIDE installment amounts (required for 1 or 2) ((a)-(d))	Overrides amount carried from ES screen.
Form 2553 - Election by a Small Business Corporation		
	Part III - Qualified Subchapter S Trust (QSST) Election, Officer title for signature section	Overrides the entry made in Part I, line H, Title, on screen 2553 .
Form 3115 Change in Accounting Method		
	General Information - Principal business activity code number	Overrides entry made on screen 1 (General Info).
	Tax year of change begins	Overrides entry made on screen 1 (General Info).
	Tax year of change ends	Overrides entry made on screen 1 (General Info).
	Contact person's telephone number	Overrides entry made on screen 1 (General Info).
25	Parts II,IV Section - Net Section 481(a) adjustments for the year of change	Overrides amount flowing from Form 3115, section A, line 1h.
Form 7004 - Application for Automatic Extension for Form 1120S		
6	Tentative tax before credits (Payments/Credits)	Overrides the amount calculated on Form 1120S (page 1), line 22c.
7	Total payments and credits	Overrides the amount calculated on Form 1120S (page 1), line 23a.
Form 8027 Employer's Annual Information Return of Tip Income and Allocated Tips		
7	Allocation of tips if using other than calendar year	Overrides calculated amount for line 7 of form; place x in line 6 to activate this override.
Form 8082 - Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)		
7	Corporation's tax year	Overrides dates entered on screen 1
Form 8283 - Noncash Charitable Contributions		
	Restrictions, Override section	Changes information on Form 8283 from section A to section B or vice versa
Form 8716 -Other Than Required Tax Year Election		
4	Date of required tax year	Overrides calculated date based on return type election.
Form 8822 - Change of Address		
4a	Business name	Overrides information entered on screen 1.
4b	Employer ID number	Overrides information entered on screen 1.
6	New mailing address	Overrides information entered on screen 1.
8	Daytime phone number	Overrides information entered on screen 1.
Form 8873 - Extraterritorial Income Exclusion		
5a	Business activity code	Overrides information entered on screen 1.
5b	Product	Overrides information entered on screen 1.
Form 8925 - Report of Employer-Owned Life Insurance Contracts		
	Type of business	Overrides information entered on screen 1.
Client Bill - Adjustments and Payments		
	Billing option (overrides what is set up in options)	Override the option selected in Setup > Options, Billing tab.
	Custom paragraph option (overrides what is setup in options)	Override the option selected in Setup > Options, Billing tab.
	Date to be printed on bill	Overrides current date.

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