

ACCT 2690 – Capstone Accounting – Personal and Business Taxation

Spring 2014

Name: _____

Date: _____

Complete the following project using the knowledge you attained in ACCT 1610 Personal Income Tax and ACCT 2610 Business Income Tax. You are going to manually prepare the federal tax return for Samson and Delilah Athena. You will be expected to complete the entire return with the necessary current tax forms which can be downloaded from the www.irs.gov web site. The dates are given such that the year the tax return is being completed is year one. Example, if you are working with the tax forms for 2013, 2013 would be the first year in a series of years—2013, 2012, 2011, 2010, 2009—and 2009 would be four years ago. Although Samson does not believe his tax return will be unduly complicate, he does realize his limitations and came to you for your assistance. The accountant who helped him last year retired. You are to prepare his income tax return for this year in good form. Be sure they are assembled in the correct numeric order, the same as you would submit them to the IRS.

Samson, a world renowned strong man and athlete, is employed as an owner and a trainer for his business “Good Body Health Club”. To some people, he is just another long-haired strong man living a life of earlier eras. Delilah, his vivacious wife, is also not your stereo-typical “blonde”. She also happens to be employed as a barber and hairstyling consultant at “Noah’s Hairstyling Salon”.

Samson and Delilah Athena live with their family at 4323 Elaine Way, Kearney, Nebraska 68847. Samson’s social security number is 413-11-4766, while Delilah’s is 429-11-2785. Their lan line telephone number is 308-477-9625. Both are in their mid- forties and enjoy good health. Both have excellent eyesight, although Samson has occasionally complained of blackouts when Delilah cuts his hair.

Samson, born July 1, 45 years ago, and Delilah, born April 15, 43 years ago, have been married 25 years and have always lived in Nebraska. In the past, they always filed their tax returns as married filing jointly. They plan to continue to file the same this year. However, this year they both would like to have part of their taxes go to the Presidential Election campaign fund.

Samson and Delilah have three children: Cain, born January 1, age eighteen, social security number 501-18-9932; Abel, born February 10, age thirteen, social security number 503-11-6211; and Seth, both July 4, age five, social security number 508-62-3312.

Cain graduated from Kearney High School in May this year and started his freshman year at the University of Houston, 210 Education Boulevard, Houston, Texas 77005 in August. He earned \$3,000 on a summer job, which he deposited in a savings account and did not use it for his support. Samson sent Cain \$300 per month (August through December) so that Cain would not have to use his personal savings for living expenses. Samson and Delilah also helped pay for his tuition, fees, books, board and room, and purchased some of his clothes. Cain’s tuition and fees totaled \$11,250, books were \$1,250 and board and room was \$14,500 for the fall semester and received a Form 1098-T from the University. Not being a totally serious student in high school, Cain did not receive any scholarships.

Abel is proving to be a very serious student with high academic standards already set in middle school. Little Seth just started kindergarten this fall and has already decided that he is going to follow in his father’s footsteps as a strong man and take over his dad’s business when he retires.

Since Samson solely owns and works full-time at the Good Body Health Club at 2731 Spa Avenue, Kearney. He submitted the business records for the club for you to use this year. He began this business on February 10, four years ago. The EIN number for the business is 47-0996023 and the business code for his health club is 812190. Since he provides only a service, he uses the cash basis method of keeping his books. He believes he has given you everything you need to complete the business portion on the return. He felt there was nothing required a filing of Form 1099-Misc.

Business information submitted by Samson:

Revenue:

General Membership Fees	\$160,000.00
Private Trainer Fees	100,000.00

Expenses:

Advertising	12,340.00
Car, Truck, miles, expense	?
Depreciation	?
Insurance	
(Health Insurance is made available to all full-time employees but no premiums are paid by the company)	
On the building	3,100.00
On the equipment	2,400.00
Liability	14,700.00
Interest related to building mortgage	11,480.00
Last year's business portion of accounting and tax work	445.00
Office expenses	3,850.00
Repairs and Maintenance:	
Painted walls	145.00
Exercise Equipment repairs	385.00
Bathroom plumbing repairs	985.00
Broken lights	375.00
Supplies	1,345.00
Taxes:	
Real property	5,275.00
Personal property (equip.)	2,810.00
Payroll taxes	8,267.60
Travel	?
Utilities:	
Telephone	3,600.00
Electricity	3,260.00
Garbage	580.00
Water and Sanitation	1,200.00
Natural gas	2,750.00
Wages:	
One full-time office assistant	40,000.00
6 part-time workers	62,400.00

Samson also included a list of the equipment and furniture in the business that needs to be depreciated. He has always had the accountant use the MACRS method for figuring the depreciation and wishes the same thing for this year. He has also never taken advantage of the bonus year depreciation nor the Section 179 expensing of any of his previous purchases and does not wish to this year either. All purchases made by Samson were new purchases with no trade-ins.

<u>Assets in Business</u>	<u>Purchase Date</u>	<u>Price Paid</u>
Building	February 10, four years ago	\$359,000.00
(Cost of land included in the price is \$40,000)		
Office Equipment:		
Desk	February 10, four years ago	400.00
Chairs	June 1, two years ago	1,080.00
Computer & Printer	August 25, two years ago	1,500.00
File Cabinets	July 1, two years ago	750.00
Storage credenza	February 10, four years ago	490.00
Workout and Training Equipment:		
Elliptical machines	February 10, four years ago	2,600.00
	June 15, three years ago	2,750.00
Treadmills	February 10, four years ago	5,200.00
Stationary bikes	February 10, four years ago	2,400.00
	April 26, this year	699.00
Weight machines	September 1, three years ago	4,800.00
Items for the weight and training room:		
Rubber floor mats	August 1, three years ago	1,378.00
Storage weight racks	February 10, four years ago	281.00
	May 23, a year ago	481.00

There are no vehicles dedicated to the business because Samson does not do that much transportation or travel-related business. However, he did some traveling this year to promote the health club and entertain customers. He drove his personal car and kept records of his business related miles only. The business mileage totaled 2,600 miles this year. He did not keep records of the gas used or repairs made because his total miles driven with the vehicle this year was 18,954 miles. These miles were all personal or commuting miles except the miles for business identified earlier. Five of the business trips required him to stay two to three days at a specific location. He incurred \$1,280 in lodging and \$625 in meals. He did not incur any parking fees nor toll fees on his travels. Samson drives a 2012 Ford Edge that was purchased new on January 2, 2012. No other vehicle was traded in at the time of the purchase. However, being so busy with keeping his muscles well-tuned, he did not have time to keep track of the motor vehicles costs.

Delilah began work in February two years ago for a barber in Kearney—Noah's Haircutting, 1692 Salon Street, Kearney, EIN No. 47-1975331. Her Form W-2 for the year included the following:

Wages, tips, and other compensations	\$39,565.00
Total Social Security and Medicare wages	42,245.00
Social Security tax withheld	2,619.19
Medicare tax withheld	612.55
Federal Income tax withheld	4,744.95
State income tax withheld	854.10

In addition to their earnings, Samson received the following amounts on Form 1099s for dividends and nonemployee compensation:

Dividends on IBM stock (ordinary and qualified)	\$100.00
Dividends on Chrysler stock (ordinary and qualified)	500.00
Dividends on savings in Employee Federal Credit Union	40.00
Samson had modeling fees for Camel Power drink advertising	1,000.00

Samson sold three sets of stock this year and received a Form 1098 from Ameritrade for each of these sales:

- 100 shares of McDugall's Burgers stock—sold on April 1 this year for \$110 a share. They were purchased for \$93 a share on December 20 two years ago.
- 120 shares of Lights Bright stock—sold on November 23 this year for \$95 a share. They were purchased for \$98 a share on March 10 five years ago.
- 45 shares of Slim Look stock—sold on March 14 this year for \$80 a share. They were purchased for \$45 a share on May 20 last year.

Samson and Delilah received Form 1099s for interest earned from:

First National Bank savings account	150.00
First Federal Security investments	1,250.00
(They cashed a CD early at First Federal Security, receiving a penalty of \$135.00.)	
U.S. Government bonds	125.00
(The bonds, purchased in 1991, were valued at \$1,000.00 when they were cashed. The bonds were used to help pay for some of Cain's college education.)	

Samson and Delilah did not the sell the home they purchased on January 1, 25 years ago, when they were first married. They converted it to a rental home 10 years ago. When they completed the conversion, the home had a fair market value of \$85,000 while they originally paid \$40,000 on the home 25 years ago. The land had a \$15,000 value 25 years ago and has a fair market value at the time of conversion of \$28,000 today. The house is located at 812 E. Lovely Lane, Kearney, NE 68847. During the current year, Samson and Delilah received \$850 a month for each of the twelve months this year in rental income from the tenants and paid the following expenses:

Association dues	\$ 400
Insurance	130
Mortgage interest	900
Real estate taxes	1,100
Repairs	320
Utilities	1,440
Depreciation on home	?

Seth, being so young, required daycare while Delilah worked. Delilah as fortunate enough to have found Babylonian Care Center, 2917 Avenue A, Kearney, NE 68847, employee ID number 47-0792651. Seth has enjoyed being there during the afternoons after being in kindergarten in the mornings since August 25. The total daycare costs were \$1,750.00 for the year.

Samson and Delilah believe they might be able to itemize their deductions and gave you a list of the items they paid by check, among other things, this year:

Medicine and drugs from prescriptions	\$157.00
Vitamins and mineral supplements	65.00

Doctor expenses	320.00
Dentist expenses	175.00
Glasses for Samson (after all, he is past 40)	85.00
Bottled water	75.00
Hospital costs for Abel's appendectomy	258.00
(The above amounts are what the insurance company did not pay in each situation.)	
Medical insurance premiums (These premiums are related to the policy established through Samson's business, but Samson pays his own premiums, not the company)	16,255.00
Personal automobiles' insurance	975.00
Real estate taxes on home	1,938.00
Personal Property taxes	
2013 Ford Edge	328.00
1969 Ford Mustang	35.00
Driver's license for Samson	30.00
Sales tax on auto purchased in February	965.00
Home mortgage interest	3,986.00
Interest on the new vehicle loan	1,460.00
Finance charge, Consumer Charge card	35.00
Finance charge, Overprices Clothes, Inc.	15.00
Contribution toward funeral expenses for Uncle Sam	1,100.00
Contribution to V.E. Glib's campaign for Governor	150.00
Contribution to Congregation Disciple church	2,400.00
Contribution to American Red Cross	500.00
Contribution to Payne Hospital	100.00
Services of I. M. Sharp, CPA, for computation of last year's federal income tax (this is for the personal tax return not related to the business)	345.00
Gymnastics clothing and sweat suits for Samson	450.00
Uniforms and shoes for Delilah	258.00

Samson and Delilah also realized and noted mileage within their personal miles, in addition to the business miles, that were for: Medical purposes, 100 miles; and for Charity purposes with Payne Hospital for delivery of Meals on Wheels, 200 miles.

In addition to the federal withholdings in Delilah Form W-2, they quarterly estimated payments on April 15, June 15, September 15, and January 15 of \$2,300.00 each quarter for the federal income tax and \$2,000.00 each quarter for state income taxes. The fourth quarter estimated payment for last year's taxes paid on January 15 this year: federal income tax payment of \$2,000.00 and state income tax payment of \$1,500.00.

Prepare Samson and Delilah's federal income tax return for this year. Be sure to include all the necessary forms in the proper sequence and schedules related to their return. If there is a refund, Samson would like to have it applied to next year's return.

Upon completion of the return, submit it to your instructor for evaluation.