

YOST PARTNERSHIP

The Yost Partnership was formed in 1995. It is based in Kansas and operates throughout the US Midwest. Yost is owned by the Blair family, one-third each by sister Emily (age 55), sister Beverly (age 53), and brother Larry (age 49). The company controls over \$150 million in productive assets, most of which are located in Kansas.

Yost purchases small- and medium-sized consumer-market power tools and assembles them into DIY Packages, sets of tools and instructions for homeowners and renters who enjoy performing repair and remodeling projects that are no more than mid-range in difficulty. The Packages are extremely user-friendly, and market research has found that a majority of the users of the product are women aged 25 – 55. Sales are made in a number of channels, including wholesaling to hardware chains such as True Value, and retailing on the web, through TV infomercials, and at regional consumer home-and-garden shows.



Yost is dependably profitable in its market niche, although its profit margins tend to be narrow. Yost's expansion in the industry has been steady, but Yost also has grown partly with an acquisition strategy. A few years ago, Yost purchased an old-line competitor whose family did not have a succession plan and was unprepared for the death of one of its founders. That competitor, The Fix-It Five LLC, operated in a few states where Yost had garnered little sales success, so the purchase of all of Five's assets and liabilities, including its name and retail locations, made good business sense.



Yost uses GAAP for its financial statements; although it is not publicly traded or audited, the entity's lenders keep a close watch on Yost-prepared computations of annual book income/loss. Yost employs about 100 individuals in its assembly operation, about 30 in sales, and usually 17 in the home office. Its

Kansas fixed assets are chiefly its office building and plant, an older building connected to two later expansions, equipment and tools used in the assembly process, and a fleet of small trucks, used for local deliveries.

Yost uses your firm for its outside tax work, most of which is multijurisdictional tax planning, including the entity and partners' income tax returns that it files with the federal government and seven states.

Your review of the Yost financial records has uncovered the following items (\$K) for the current calendar tax year. Book-tax "no differences" items total to a net positive \$12,270, which include the following items, among others.

Sales					13,000	
Cost of Goods Sold					(9,000)	
Advertising costs					(600)	
General and Administrative costs					(400)	

1. Yost's book income is reported as \$2,900. Its book balance sheet shows assets of \$60,000 and liabilities of \$5,000.
2. Book income reflects a proper consolidation with Young Corporation, a supplier based in Ohio, of which Yost holds 100 percent of the outstanding shares. Young's portion of the Yost book income is \$900. During the year, Young paid a \$50 dividend. Young's book balance sheet shows total assets of \$4,000 and liabilities of \$2,500.
3. Yost received a \$10 dividend from its holdings in ExxonMobil and Procter & Gamble. This is reported on the entity's Schedule K.
4. The Schedule K discloses Yost's \$1,500 guaranteed payments to its owners. The entity made a \$300 cash contribution to the Kansas United Fund, a qualifying charity.
5. Yost uses the reserve method to account for its bad debt expense. Book expense for the year was \$40. Specific receivables written-off totaled \$15.
6. At the end of the year, Yost received a \$275 payment from Guilford LLC, one of its wholesale customers. The payment was in full satisfaction of a sales contract that had very favorable terms for the customer. The contract covered the current year and the next three years. Book income for the year from this transaction totaled \$100.
7. Expenses for meals and entertainment, incurred by Yost sales staff in working with current and potential customers, totaled \$250.
8. Yost's acquisitions included several accounts classified as purchased goodwill. The largest of these accounts pertains to the Fix-It Five takeover. The tax amortization for goodwill this year amounted to \$170. The financial statements included a \$100 write-down for impairment of the goodwill accounts.

9. Yost uses different accounting methods for some of its activities.

					Book	Tax
	Depreciation				1,335	1,530
	Income from other long-term contracts				2,000	1,350

10. Yost traded a business asset with a competitor. The resulting \$80 book gain qualified under the tax law for full tax-deferred §1031 like-kind exchange treatment, as there was no boot received.

11. Costs totaling \$85 were amortized into book income, incurred by Yost several years ago in a failed attempt to syndicate to a few outside investors some shares in the entity of a lower class than those held by the Blairs.

12. Yost earned \$150 interest income from various bonds and certificates that it holds. Of this amount, \$100 relates to City of Birmingham (AL) Business District Improvement Bonds.

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Complete the Schedule M-3 for the Yost Partnership. Use forms for the tax year that is the most current available at [irs.gov](https://www.irs.gov). Electronic or hard copy forms can be submitted.

Yost does not generate any adjustments or preferences for the state or federal alternative minimum tax. Do not prepare a Form 8916-A relative to cost of goods sold and interest items. Omit the employer identification number for the entity.

As you prepare your solution, keep a word or excel document that is organized by the numbered items above, noting assumptions that you make and references to controlling tax law.

Hint: You might start by creating a spreadsheet to track the reconciling entries for Yost. You might structure the spreadsheet, one for each item in the facts above, then cross-reference the adjustments by line number of the Schedule M-3.