

On November 1, 2005, Janet Morton and Kim Wong formed Pet Kingdom, Inc., to sell pets and pet supplies. Pertinent information regarding Pet Kingdom is summarized as follows:

- Pet Kingdom's business address is 1010 Northwest Parkway, Dallas, TX 75225; its telephone number is (214) 555-2211; and its e-mail address is petkingdom@pki.com.
- The employer identification number is 11-1111111, and the principal business activity code is 453910.
- Janet and Kim each own 50% of the common stock; Janet is president and Kim is vice president of the company. No other class of stock is authorized.
- Both Janet and Kim are full-time employees of Pet Kingdom. Janet's Social Security number is 123-45-6789, and Kim's Social Security number is 987-65-4321.

- Pet Kingdom is an accrual method, calendar year taxpayer. Inventories are determined using FIFO and the lower of cost or market method. Pet Kingdom uses the straight-line method of depreciation for book purposes and accelerated depreciation (MACRS) for tax purposes.
- During 2013, the corporation distributed cash dividends of \$250,000.

Pet Kingdom's financial statements for 2013 are shown below.

Income Statement

<u>Income</u>			
Gross sales			\$ 5,750,000
Sales returns and allowances			<u>(200,000)</u>
Net sales			\$ 5,550,000
Cost of goods sold			<u>(2,300,000)</u>
Gross profit			\$ 3,250,000
Dividends received from stock investments in less-than-20%-owned U.S. corporations			43,750
Interest income:			
State bonds	\$ 15,000		
Certificates of deposit	<u>20,000</u>		35,000
Total income			\$ 3,328,750
<u>Expenses</u>			
Salaries—officers			
Janet Morton	\$262,500		
Kim Wong	<u>262,500</u>	\$525,000	
Salaries—clerical and sales			725,000
Taxes (state, local, and payroll)			238,000
Repairs and maintenance			140,000
Interest expense:			
Loan to purchase state bonds	\$ 9,000		
Other business loans	<u>207,000</u>	216,000	
Advertising			58,000
Rental expense			109,000
Depreciation*			106,000
Charitable contributions			38,000
Employee benefit programs			60,000
Premiums on term life insurance policies on lives of Janet Morton and Kim Wong; Pet Kingdom is the designated beneficiary			<u>40,000</u>
Total expenses			(2,255,000)
Net income before taxes			\$ 1,073,750
Federal income tax			<u>(356,023)</u>
Net income per books			<u>\$ 717,727</u>

* Depreciation for tax purposes is \$136,000. You are not provided enough detailed data to complete a Form 4562 (depreciation). If you solve this problem using H&R BLOCK Tax Software, enter the amount of depreciation on line 20 of Form 1120.

Balance Sheet

Assets	January 1, 2013	December 31, 2013
Cash	\$ 1,200,000	\$ 1,037,750
Trade notes and accounts receivable	2,062,500	2,147,000
Inventories	2,750,000	3,030,000
Stock investment	1,125,000	1,125,000
State bonds	375,000	375,000
Certificates of deposit	400,000	400,000
Prepaid Federal tax	—0—	3,977
Buildings and other depreciable assets	5,455,000	5,455,000
Accumulated depreciation	(606,000)	(712,000)
Land	812,500	812,500
Other assets	140,000	128,500
Total assets	<u>\$13,714,000</u>	<u>\$13,802,727</u>
Liabilities and Equity	January 1, 2013	December 31, 2013
Accounts payable	\$ 2,284,000	\$ 1,975,000
Other current liabilities	175,000	155,000
Mortgages	4,625,000	4,575,000
Capital stock	2,500,000	2,500,000
Retained earnings	4,130,000	4,597,727
Total liabilities and equity	<u>\$13,714,000</u>	<u>\$13,802,727</u>

During 2013, Pet Kingdom made estimated tax payments of \$90,000 each quarter to the IRS. Prepare a Form 1120 for Pet Kingdom for tax year 2013. Suggested software: H&R BLOCK Tax Software.