Group Project #2: Partnership Tax Return

Instructions:

Please complete AAA Fast Plumbing’s 2019 tax return based upon the facts presented below. If required information is missing, use reasonable assumptions to fill in the gaps.

Michael Rodriguez and Devontae Johnson have been life-long friends. Both Michael and Devontae started to work for the same national plumbing repair company immediately after graduating from technical college. After nearly a decade of working for that same company, Michael and Devontae decided to venture out on their own and form their own plumbing company called AAA Fast Plumbing Repair (AAA). They formed AAA as a limited liability company (LLC). Michael and Devontae each own 50% of the company. The company has been successful primarily based upon reputation and the fact that AAA is available 24 hours a day, seven days a week. Although AAA charges a premium for after normal business hour calls, most of its competitors will not perform services past 9 p.m. and, thus, AAA finds itself often as one of the only available choices for middle of the night emergencies.

AAA has several employees and because of implementing technology solutions to aid in its call dispatch program, AAA has been able to expand its service area to now include a three-county area instead of just one.

Information relating to AAA and its owners is as follows:

Name of Company: AAA Fast Plumbing Repair, LLC

Address: 1456 East Buena Vista Blvd.

Los Angeles, CA 90001 (has not changed since inception)

Company formed and started: January 1, 2010

Accounting Method: Cash

Tax-year end: December 31

Employer Identification Number: 34-1234567

Members’ Information:

Michael Rodriguez

1515 West Bloomington Street

Los Angeles, CA 90001

SSN- 585-31-XXXX

Profit/Loss/Capital membership interest is 50%.

Devontae Johnson

19 East Violet Circle

Los Angeles, CA 90001

SSN: 397-29-XXXX

Profit/Loss/Capital membership interest is 50%.

Other information:

* AAA is a domestic limited liability company.
* Michael and Devontae are not related.
* Michael and Devontae are both U.S. citizens.
* Both Michael and Devontae are managing members.
* AAA is not a publicly traded partnership.
* During the year, no debt was cancelled or forgiven in relation to AAA.
* Michael is the Designated Partnership Representative (PR).
* Both Michael and Devontae are active in the business and work full-time for AAA.
* Neither Michael nor Devontae have guaranteed repayment of the debt owed to First National Bank (see balance sheet attached). This debt is not directly tied to any specific asset but is rather a debt secured against all of the assets of the company, with neither Michael nor Devontae personally responsible for its repayment.
* During the year, Michael and Devontae each contributed $20,000 to the capital of AAA.
* AAA does not maintain any inventory. AAA purchases supplies and has a policy of expensing such purchases as paid for tax and book purposes consistent with existing tax law.
* AAA uses MACRS depreciation for both tax and book purposes.
* During the year, Michael and Devontae each received a $75,000 distribution from AAA.

Additional Instructions

- Do not complete Schedule L.

- Schedule B: answer only question 1 and the Designated Partnership Representative information.

Financial Statements:

Balance Sheet

Assets: 12/31/18 12/31/19\_\_

Cash $ 30,000 $ 45,000

Tax-exempt Securities 100,000 100,000

Building 4,000,000 4,000,000

Less: Acc. Depreciation (551,282) (653,842)

Equipment 2,500,000 3,250,000

Less: Acc. Depreciation (1,481,400) (2,231,663)

Land 1,000,000 1,000,000\_

Total Assets: $5,597,318 $5,509,495

Liabilities and Capital:

Note Payable-First National Bank $4,267,318 $4,046,673

Note Payable-Michael Rodriguez 300,000 300,000

Note Payable-Devontae Johnson 200,000 200,000

Capital Account-MR 415,000 481,411

Capital Account-DJ 415,000 481,411

Total Liabilities and Capital: $5,597,318 $5,509,495

Income Statement for the year ending December 31, 2019

Item Amount\_\_\_

Income:

Service Revenue-Cash $ 343,565

Service Revenue-Credit Cards $1,922,710

Consulting Revenue-Cash $ 50,950

Consulting Revenue-Credit Cards $ 155,005

Interest Income-First National Bank $ 1,540

Municipal Bond Interest Income $ 2,500

Total Income: $2,476,270

Expenses:

Employee Salaries $ 515,735

Guaranteed payment-MR $ 50,000

Guaranteed payment-DJ $ 50,000

Repairs and Maintenance-Trucks $ 113,415

Rent $ 35,000

Payroll Taxes $ 41,260

Licensing Fees $ 1,750

Property Taxes $ 77,000

Interest Expense $ 235,000

Depreciation $ 852,823

Office Supplies $ 3,420

Employee Training $ 5,675

Advertising $ 18,850

Plumbing supplies $ 15,125

Meals (prior to disallowance) $ 13,740

Travel $ 4,210

Gasoline $ 158,675

Utilities $ 24,940

Telephone $ 16,830

Total Expenses: $2,233,448

Net Income: $ 242,822