Reading 30: Income Taxes

Question #1 of 69

Question ID: 434307

Habel Inc. owns equipment with a tax base of $400,000 and a carrying value of $600,000. Habel also has a tax loss carryforward of $200,000 that is expected to be utilized in the foreseeable future. Deferred tax items on the balance sheet are valued based on a tax rate of 30%. If the tax rate increases to 35%, the adjustments to the value of deferred tax items will *most likely* cause Habel's total liabilities-to-equity ratio to:

A) remain unchanged.
B) increase.
C) decrease.

Question #2 of 69

Question ID: 414546

Nespa, Inc., has a deferred tax liability on its balance sheet in the amount of $25 million. A change in tax laws has increased future tax rates for Nespa. The impact of this increase in tax rate will be:

A) a decrease in deferred tax liability and a decrease in tax expense.
B) an increase in deferred tax liability and an increase in tax expense.
C) a decrease in deferred tax liability and an increase in tax expense.

Question #3 of 69

Question ID: 596409

For analytical purposes, if a deferred tax liability is expected to not be reversed, it should be treated as a(n):

A) immaterial amount and ignored.
B) liability.
C) an addition to equity.

Question #4 of 69

Question ID: 414559

Graphics, Inc. has a deferred tax asset of $4,000,000 on its books. As of December 31, it became more likely than not that $2,000,000 of the asset's value may never be realized because of the uncertainty of future income. Graphics, Inc. should:

A) reverse the asset account permanently by $2,000,000.
B) reduce the asset by establishing a valuation allowance of $2,000,000 against the asset.
C) not make any adjustments until it is certain that the tax benefits will not be realized.

Question #5 of 69

Question ID: 414575

Which of the following situations will *most likely* require a company to record a valuation allowance on its balance sheet?

A) A firm is unlikely to have future taxable income that would enable it to take advantage of deferred tax assets.

B) A firm has differences between taxable and pretax income that are never expected to reverse.

C) To report depreciation, a firm uses the double-declining balance method for tax purposes and the straight-line method for financial reporting purposes.

Question #6 of 69

Question ID: 434306

A company purchased a new pizza oven for $12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at $7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. For this question ignore all expenses other than depreciation.

What is the deferred tax liability as of the end of year three?

A) $1,029.

B) $780.

C) $2,079.

Question #7 of 69

Question ID: 414547

Corcoran Corp acquired an asset on 1 January 2004, for $500,000. For financial reporting, Corcoran will depreciate the asset using the straight-line method over a 10-year period with no salvage value. For tax purposes the asset will be depreciated straight line for five years and Corcoran's effective tax rate is 30%. Corcoran's deferred tax liability for 2004 will:

A) decrease by $15,000.

B) increase by $15,000.

C) decrease by $50,000.

Question #8 of 69

Question ID: 414556

Year ending 31 December:	*2002*	*2003*	*2004*
Income Statement:			
Revenues after all expenses other than depreciation	$200	$300	$400
Depreciation expense	50	50	50
Income before income taxes	$150	$250	$350
Tax return:			

Taxable income before depreciation expense	$200	$300	$400
Depreciation expense	75	50	25
Taxable income	$125	$250	$375

Assume an income tax rate of 40% and zero deferred tax liability on 31 December 2001.

The deferred tax liability to be shown in the 31 December 2003, balance sheet and the 31 December 2004 balance sheet, is:

	2003	2004
A)	$10	$0
B)	$25	$20
C)	$0	$10

Question #9 of 69

Question ID: 485782

A firm has deferred tax assets of $315,000 and deferred tax liabilities of $190,000. If the tax rate increases, adjusting the value of the firm's deferred tax items will:

A) have no effect on income tax expense.
B) increase income tax expense.
C) decrease income tax expense.

Question #10 of 69

Question ID: 598979

Deferred tax items should be measured based on the:

A) statutory tax rate at the time when the temporary difference is recognized.
B) firm's effective tax rate at the time when the temporary difference reverses.
C) tax rate that will apply when the temporary difference reverses.

Question #11 of 69

Question ID: 713913

A dance club purchases new sound equipment for $25,352. It will work for 5 years and has no salvage value. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. Annual revenues are constant at $14,384 over these five years. If the tax rate for years 4 and 5 changes from 41% to 31%, what is the deferred tax liability as of the end of year 3?

A) $2,948.
B) $3,144.
C) $1,039.

Question #12 of 69

Question ID: 414584

A firm purchased a piece of equipment for $6,000 with the following information provided:

- Revenue will be $15,000 per year.
- The equipment has a 3-year life expectancy and no salvage value.
- The firm's tax rate is 30%.
- Straight-line depreciation is used for financial reporting and double declining is used for tax purposes.

Calculate taxes payable for years 1 and 2.

	Year 1	Year 2
A)	3,300	4,100
B)	3,900	3,900
C)	600	-200

Question #13 of 69

Question ID: 414531

Which of the following statements about tax deferrals is NOT correct?

A) Taxes payable are determined by pretax income and the tax rate.
B) Income tax paid can include payments or refunds for other years.
C) A deferred tax liability is expected to result in future cash outflow.

Question #14 of 69

Question ID: 414543

In 20X8, Oliver Ltd. received $80,000 cash from a customer for goods that it could not deliver until the next year and established a liability for unearned revenue. Oliver reports under U.S. GAAP, faces a 40% tax rate, and is located in a tax jurisdiction where unearned revenue is taxed as received. On their balance sheet for 20X8, what change in deferred tax should Oliver record as a result of this transaction?

A) A deferred tax liability of $32,000.
B) There is no effect on deferred tax items from this transaction.
C) A deferred tax asset of $32,000.

Question #15 of 69

Question ID: 414574

Deferred tax liabilities may result from:

A) pretax income greater than taxable income due to temporary differences.
B) pretax income greater than taxable income due to permanent differences.
C) pretax income less than taxable income due to temporary differences.

Question #16 of 69

Question ID: 414585

Under U.S. GAAP, which of the following statements regarding the disclosure of deferred taxes in a company's balance sheet is *most* accurate?

A) Current deferred tax liability and noncurrent deferred tax asset are netted, resulting in the disclosure of a net noncurrent deferred tax liability or asset.

B) There should be a combined disclosure of all deferred tax assets and liablities.

C) Current deferred tax liability, current deferred tax asset, noncurrent deferred tax liability and noncurrent deferred tax asset are each disclosed separately.

Question #17 of 69

Question ID: 414583

Year:	*2002*	*2003*	*2004*
Income Statement:			
Revenues after all expenses other than depreciation	$200	$300	$400
Depreciation expense	50	50	50
Income before income taxes	$150	$250	$350
Tax return:			
Taxable income before depreciation expense	$200	$300	$400
Depreciation expense	75	50	25
Taxable income	$125	$250	$375

Assume an income tax rate of 40%.

The company's income tax expense for 2002 is:

A) $50.

B) $60.

C) $0.

Question #18 of 69

Question ID: 460647

A firm needs to adjust its financial statements for a change in the tax rate. Taxable income is $80,000 and pretax income is $120,000. The current tax rate is 50%, and the new tax rate is 40%. The effect on taxes payable of adjusting the tax rate is *closest to*:

A) $8,000.

B) $4,000.

C) $16,000.

Question #19 of 69

Question ID: 414581

While evaluating the financial statements of Omega, Inc., the analyst observes that the effective tax rate is 7% less than the statutory rate. The source of this difference is determined to be a tax holiday on a manufacturing plant located in South Africa. This item is *most* likely to be:

A) sporadic in nature, and the analyst should try to identify the termination date and determine if taxes will be payable at that time.

B) continuous in nature, so the termination date is not relevant.

C) sporadic in nature, but the effect is typically neutralized by higher home country taxes on the repatriated profits.

Question #20 of 69

Question ID: 414550

Unit Technologies uses accrual basis for financial reporting purposes and cash accounting for tax purposes. So far this year, Unit Technologies has recorded $195,000 in revenue for financial reporting purposes, but, on a cash basis, revenue was only $131,000. Assume expenses at 50 percent in both cases (i.e., $ 97,500 on accrual basis and $ 65,500 on cash basis), and a tax rate of 34%. What is the deferred tax liability or asset? A deferred tax:

A) liability of $16,320.

B) asset of $10,880.

C) liability of $10,880.

Question #21 of 69

Question ID: 414586

A tax rate that has been substantively enacted is used to determine the balance sheet values of deferred tax assets and deferred tax liabilities under:

A) U.S. GAAP only.

B) IFRS only.

C) both IFRS and U.S. GAAP.

Question #22 of 69

Question ID: 414561

For the year ended 31 December 2004, Pick Co's pretax financial statement income was $400,000 and its taxable income was $300,000. The difference is due to the following:

Interest on tax-exempt municipal bonds	$140,000
Premium expense on key person life insurance	$(40,000)
Total	$100,000

Pick's statutory income tax rate is 30 percent. In its 2004 income statement, what amount should Pick report as current provision for tax payable?

A) $102,000.

B) $120,000.

C) $90,000.

Question #23 of 69

Question ID: 456301

All-Star Enterprises purchased a machine on January 1. The company uses straight-line depreciation for financial reporting and accelerated depreciation for tax purposes. Depreciation for tax purposes during the year was $36,000 greater than depreciation for financial reporting. Assuming a 30% tax rate will apply in the future, how much will be recorded as a deferred tax liability during the year?

A) $36,000

B) $25,200

C) $10,800

Question #24 of 69

Question ID: 414587

Under IFRS, deferred tax assets and deferred tax liabilities are classified on the balance sheet as:

A) current items.

B) either current or noncurrent items.

C) noncurrent items.

Question #25 of 69

Question ID: 434304

A company purchased a new pizza oven for $12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at $7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. For this question ignore all expenses other than depreciation.

What is the tax payable for year one?

A) $1,909.

B) $1,130.

C) $779.

Question #26 of 69

Question ID: 414554

A firm purchased a piece of equipment for $6,000 with the following information provided:

- Revenue will increase by $15,000 per year.
- The equipment has a 3-year life expectancy and no salvage value.
- The firm's tax rate is 30%.
- Straight-line depreciation is used for financial reporting and double declining is used for tax purposes.

What will the firm report for deferred taxes on the balance sheet for years 1 and 2?

	Year 1	Year 2
A)	$600	$400
B)	$3,900	$3,900
C)	$3,300	$4,100

Question #27 of 69

Question ID: 414562

Selected information from Kentucky Corp.'s financial statements for the year ended December 31 was as follows (in $ millions):

Property, Plant & Equip.	10	Deferred Tax Liability	0.6
Accumulated Depreciation	(4)		

The balances were all associated with a single asset. The asset was permanently impaired and has a present value of future cash flows of $4 million. After Kentucky writes down the asset, Kentucky's tax accounts will be affected as follows (the tax rate is 40%):

A) deferred tax liability will be eliminated and deferred tax assets will increase $200,000.

B) deferred tax liability will be eliminated and deferred tax assets will increase $1.4 million.

C) taxes payable will decrease $800,000.

Question #28 of 69

Question ID: 414582

An analyst gathered the following information about a company:

- Pretax income = $10,000.
- Taxes payable = $2,500.
- Deferred taxes = $500.
- Tax expense = $3,000.

What is the firm's reported effective tax rate?

A) 5%.

B) 25%.

C) 30%.

Question #29 of 69

Question ID: 414551

This year, Blue Horizon has recorded $390,000 in revenue for financial reporting purposes, but, on a cash basis, revenue was only $262,000. Assume expenses at 50% in both cases (i.e., $195,000 on accrual basis and $131,000 on cash basis), and a tax rate of 34%. What is the deferred tax liability or asset? A deferred tax:

- **A)** liability of $16,320.
- **B)** liability of $21,760.
- **C)** asset of $21,760.

Question #30 of 69

Question ID: 414535

Which of the following *best* describes valuation allowance? Valuation allowance is a reserve:

- **A)** created when deferred tax assets are greater than deferred tax liabilities.
- **B)** against deferred tax liabilities based on the likelihood that those liabilities will be paid.
- **C)** against deferred tax assets based on the likelihood that those assets will not be realized.

Question #31 of 69

Question ID: 414534

If a firm uses accelerated depreciation for tax purposes and straight-line depreciation for financial reporting, which of the following results is *least likely*?

- **A)** A temporary difference will result between tax and financial reporting.
- **B)** A permanent difference will result between tax and financial reporting.
- **C)** Income tax expense will be greater than taxes payable.

Question #32 of 69

Question ID: 414552

Camphor Associates uses accrual basis for financial reporting purposes and cash basis for tax purposes. Cash collections from customers is $238,000, and accrued revenue is only $188,000. Assume expenses at 50% in both cases (i.e., $119,000 on cash basis and $94,000 on accrual basis), and a tax rate of 34%. What is the deferred tax asset/liability in this case? A deferred tax:

- **A)** liability of $8,500.
- **B)** asset of $8,500.
- **C)** asset of $48,960.

Question #33 of 69

Question ID: 414565

A company purchases a new pizza oven for $12,675. It will work for 5 years and have no salvage value. The company will depreciate the oven over 5 years using the straight-line method for financial reporting, and over 3 years for tax reporting. If the tax rate for years 4 and 5 changes from 41% to 31%, the deferred tax liability as of the end of year 3 is *closest to:*

A) $1,570

B) $2,080

C) $1,040

Question #34 of 69

Question ID: 434308

Christophe Inc. is an electronics manufacturing firm. It owns equipment with a tax basis of $800,000 and a carrying value of $600,000 as the result an impairment charge. It also has a tax loss carryforward of $300,000 that is expected to be utilized within the next year or two. The tax rate on these items is 40% but the tax rate will decrease to 35%. Which of the following is *closest to* the effect on the income statement of the change in tax rate?

A) Increase income tax expense by $25,000.

B) Decrease income tax expense by $5,000.

C) Increase income tax expense by $5,000.

Question #35 of 69

Question ID: 598978

Which of the following factors is *least likely* to cause a difference between a firm's effective tax rate and statutory rate?

A) Tax credits.

B) Non-deductible expenses.

C) Deductible expenses.

Question #36 of 69

Question ID: 414576

Which of the following statements *best* justifies analyst scrutiny of valuation allowances?

A) If differences in taxable and pretax incomes are never expected to reverse, a company's equity may be understated.

B) Changes in valuation allowances can be used to manage reported net income.

C) Increases in valuation allowances may be a signal that management expects earnings to improve in the future.

Question #37 of 69

Question ID: 434299

A temporary difference between income tax expense and taxes payable result in a(n):

A) adjustment to the effective tax rate.
B) gain or loss in comprehensive income.
C) deferred tax item.

Question #38 of 69

Question ID: 479061

Firm 1 has a deferred tax liability and Firm 2 has a deferred tax asset. If the tax rate decreases, the balance sheet values of these deferred tax items will:

	Firm 1	Firm 2
A)	decrease.	decrease.
B)	increase.	decrease.
C)	increase.	increase.

Question #39 of 69

Question ID: 414553

A firm purchased a piece of equipment for $6,000 with the following information provided:

- Revenue will increase by $15,000 per year.
- The equipment has a 3-year life expectancy and no salvage value.
- The firm's tax rate is 30%.
- Straight-line depreciation is used for financial reporting and double declining balance is used for tax purposes.

Calculate the incremental income tax expense for financial reporting for years 1 and 2.

	Year 1	Year 2
A)	$3,300	$4,100
B)	$3,900	$3,900
C)	$600	-$200

Question #40 of 69

Question ID: 702537

Which of the following financial ratios is *least likely* to be affected by classification of deferred taxes as a liability or equity?

A) Leverage ratio.
B) Return on equity (ROE).
C) Return on assets (ROA).

Question #41 of 69

Question ID: 434303

An analyst gathers the following data for Alice Company:

- Alice Company reported a pretax income of $400,000 in its income statement for the period ended December 31, 20X2.
- Included in its pretax income are: (1) interest received on tax-free municipal bonds $50,000 and (2) rent expense of $20,000. Only $10,000 was paid in cash for rent during 20X2.
- Alice follows cash basis for tax reporting.
- Alice's tax rate is 40%.

Based on the information provided, which of the following is *most* accurate with respect to deferred tax during 20X2? Alice's deferred tax:

A) asset will increase by $4,000.
B) will remain unchanged.
C) liability will increase by $4,000.

Question #42 of 69

Question ID: 414564

If a firm overestimates its warranty expenses, which of the following results is *least likely*?

A) A timing difference will result between tax and financial reporting.
B) Income tax expense will be greater than taxes payable.
C) A deferred tax asset will result.

Question #43 of 69

Question ID: 498761

For a company which owns a majority of the equity of a subsidiary, whether to create a deferred tax liability for undistributed profits from the subsidiary depends on an "indefinite reversal criterion" under:

A) both IFRS and U.S. GAAP.
B) IFRS, but not U.S. GAAP.
C) U.S. GAAP, but not IFRS.

Question #44 of 69

Question ID: 654848

The Puchalski Company reported the following:

	Year 1	*Year 2*	*Year 3*	*Year 4*
Income before taxes	$1,000	$1,000	$900	$800
Taxable income	$800	$900	$900	$1,000

The differences between income before taxes and taxable income are the result of using accelerated depreciation for tax purposes on an asset purchased in Year 1. Puchalski had no deferred tax liability prior to Year 1. If the tax rate is 40%, what is the amount of the deferred tax liability reported at the end of Year 4?

A) $40.
B) $80.
C) $120.

Question #45 of 69

Question ID: 414570

Enduring Corp. operates in a country where net income from sales of goods are taxed at 40%, net gains from sales of investments are taxed at 20%, and net gains from sales of used equipment are exempt from tax. Installment sale revenues are taxed upon receipt.

For the year ended December 31, 2004, Enduring recorded the following before taxes were considered:

- Net income from the sale of goods was $2,000,000, half was received in 2004 and half will be received in 2005.
- Net gains from the sale of investments were $4,000,000, of which 25% was received in 2004 and the balance will be received in the 3 following years.
- Net gains from the sale of equipment were $1,000,000, of which 50% was received in 2004 and 50% in 2005.

On its financial statements for the year ended December 31, 2004, Enduring should apply an effective tax rate of:

A) 26.67% and increase its deferred tax liability by $1,000,000.
B) 22.86% and increase its deferred tax asset by $1,000,000.
C) 22.86% and increase its deferred tax liability by $1,000,000.

Question #46 of 69

Question ID: 652916

Permanent differences between taxable and pretax income:

A) are considered as changes in the effective tax rate.
B) are not addressed specifically in the financial statements.
C) can be deferred in some cases.

Question #47 of 69

Question ID: 414558

The Puchalski Company reported the following:

	Year 1	*Year 2*	*Year 3*	*Year 4*
Income before taxes	$1,000	$1,000	$900	$800

Taxable income	$800	$900	$900	$1,000

Puchalski has no deferred tax asset or liability prior to Year 1. If the tax rate is 40%, what is the amount of the deferred tax asset or liability reported at the end of Year 3?

A) Asset of $120.
B) Liability of $120.
C) Asset of $80.

Question #48 of 69

Question ID: 414541

For purposes of financial analysis, an analyst should:

A) always consider deferred tax liabilities as stockholder's equity.
B) always consider deferred tax liabilities as a liability.
C) determine the treatment of deferred tax liabilities on a case-by-case basis.

Question #49 of 69

Question ID: 485781

A health care company purchased a new MRI machine on 1/1/X3. At year-end the company recorded straight-line depreciation expense of $75,000 for book purposes and accelerated depreciation expense of $94,000 for tax purposes. Management estimates warranty expense related to corrective eye surgeries performed in 20X3 to be $250,000. Actual warranty expenses of $100,000 were incurred in 20X3 related to surgeries performed in 20X2. The company's tax rate for the current year was 35%, but a tax rate of 37% has been enacted into law and will apply in future periods. Assuming these are the only relevant entries for deferred taxes, the company's recorded changes in deferred tax assets and liabilities on 12/31/X3 are *closest to*:

	DTA	DTL
A)	$55,500	$7,030
B)	$55,500	$6,650
C)	$52,500	$6,650

Question #50 of 69

Question ID: 414530

Which of the following statements is CORRECT? Income tax expense:

A) is the reported net of deferred tax assets and liabilities.
B) includes taxes payable and deferred income tax expense.
C) is the amount of taxes due to the government.

Question #51 of 69

Question ID: 434300

An analyst has gathered the following tax information:

	Year 1	*Year 2*
Pretax Income	$60,000	$60,000
Taxable Income	$50,000	$65,000

The current tax rate is 40%. Assume the tax rate is reduced to 30% and the change is enacted at the beginning of Year 2.

In year 1, what are the taxes payable and what is the deferred tax liability (DTL)?

	Taxes payable	DTL
A)	$24,000	$1,500
B)	$20,000	$3,000
C)	$20,000	$1,500

Question #52 of 69

Question ID: 414555

Laser Tech has net temporary differences between tax and book income resulting in a deferred tax liability of $30.6 million. According to U.S. GAAP, an increase in the tax rate would have what impact on deferred taxes and net income, respectively:

	Deferred Taxes	Net Income
A)	No effect	Decrease
B)	Increase	No effect
C)	Increase	Decrease

Question #53 of 69

Question ID: 414560

An analyst gathered the following information about a company:

- Taxable income = $100,000.
- Pretax income = $120,000.
- Current tax rate = 20%.
- Tax rate when the reversal occurs will be 10%.

What is the company's tax expense?

A) $24,000.

B) $10,000.

C) $22,000.

Question #54 of 69

Question ID: 414542

At the end of 20X8, Martin Inc. estimates that $26,000 of warranty repairs will be required in the future on goods already sold. For tax purposes, warranty expense is not deductible until the work is actually performed. The firm believes that the warranty work will be required over the next two years. The tax base of the warranty liability at the end of 20X8 is:

A) $13,000.

B) $26,000.

C) zero.

Question #55 of 69

Question ID: 414536

If timing differences that give rise to a deferred tax liability are not expected to reverse then the deferred tax:

A) should be considered an asset or liability.

B) must be reduced by a valuation allowance.

C) should be considered an increase in equity.

Question #56 of 69

Question ID: 414577

Which of the following statements *best* describes the impact of a valuation allowance on the financial statements? A valuation allowance:

A) reduces reported income, increases liabilities, and reduces equity.

B) increases reported income, reduces assets, and reduces equity.

C) reduces reported income, reduces assets, and reduces equity.

Question #57 of 69

Question ID: 498762

Under which financial reporting standards is the full amount of a deferred tax asset shown on the balance sheet, regardless of its probability of being realized fully?

A) Neither IFRS nor U.S. GAAP.

B) IFRS, but not U.S. GAAP.

C) U.S. GAAP, but not IFRS.

Question #58 of 69

Question ID: 596408

When analyzing a company's financial leverage, deferred tax liabilities are *best* classified as:

A) a liability.

B) neither as a liability, nor as equity.

C) a liability or equity, depending on the company's particular situation.

Question #59 of 69

Question ID: 414544

Alter Inc. determines that it has $35,000 of accounts receivable outstanding at the end of 20X8. Based on past experience, it recognizes an allowance for bad debt equal to 10% of its credit sales. The tax base of Alter's accounts receivable at the end of 20X8 is *closest* to:

A) $31,500.

B) $35,000.

C) $3,500.

Question #60 of 69

Question ID: 722200

An analyst gathers the following data for Alice Company:

- Alice Company reported a pretax income of $400,000 in its income statement for the period ended December 31, 20X2.
- Included in its pretax income are: (1) interest received on tax-free municipal bonds $50,000 and (2) rent expense of $20,000. Only $10,000 was paid in cash for rent during 20X2.
- Alice follows cash basis for tax reporting.
- Alice's tax rate is 40%.

What is the income tax expense that Alice should report on its income statement for the year ended December 31, 20X2?

A) $140,000.

B) $132,000.

C) $160,000.

Question #61 of 69

Question ID: 414548

A company purchased a new pizza oven directly from Italy for $12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at $7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is accelerated to 35% in years 1 and 2, and 30% in year 3. For purposes of this exercise ignore all expenses other than depreciation.

What is the net income and depreciation expense for year one for financial reporting purposes?

	Net Income	Depreciation Expense
A)	$2,535	$3,169
B)	$4,657	$2,748

C) $2,748 $2,535

Question #62 of 69

Question ID: 414545

A firm buys an asset with an estimated useful life of five years for $100,000 at the beginning of the year. The firm will depreciate the asset on a straight-line basis with no salvage value on its financial statements and will use double declining balance depreciation for tax. The tax basis for this asset at the end of the first year is *closest* to:

A) $40,000.

B) $80,000.

C) $60,000.

Question #63 of 69

Question ID: 414549

Kruger Associates uses an accrual basis for financial reporting purposes and cash basis for tax purposes. Cash collections from customers are $476,000, and accrued revenue is only $376,000. Assume expenses at 50% in both cases (i.e., $238,000 on cash basis and $188,000 on accrual basis), and a tax rate of 34%. What is the deferred tax asset or liability? A deferred tax:

A) asset of $48,960.

B) asset of $17,000.

C) liability of $17,000.

Question #64 of 69

Question ID: 722201

Which of the following statements regarding differences between taxable and pretax income is *most* accurate? Differences between taxable and pretax income that:

A) result in deferred tax assets or liabilities are called temporary differences.

B) are not reversed for five or more years are called permanent differences.

C) increase or decrease the effective tax rate are called temporary differences.

Question #65 of 69

Question ID: 434305

A company purchased a new pizza oven for $12,676. It will work for 5 years and has no salvage value. The tax rate is 41%, and annual revenues are constant at $7,192. For financial reporting, the straight-line depreciation method is used, but for tax purposes depreciation is 35% of original cost in years 1 and 2 and the remaining 30% in Year 3. For this question ignore all expenses other than depreciation.

What is the deferred tax liability as of the end of year one?

A) $1,909.

B) $780.

C) $1,129.

Question #66 of 69

Question ID: 414537

Which of the following statements regarding deferred taxes is NOT correct?

A) Only those components of deferred tax liabilities that are likely to reverse should be considered a liability.

B) If deferred taxes are not expected to reverse in the future then they should be classified as equity.

C) If deferred tax liabilities are not included in equity, debt-to-equity ratio will be reduced.

Question #67 of 69

Question ID: 414566

Given the following data regarding two firms under different scenarios, determine the amount of any deferred tax liability or asset.

Firm 1:

Tax Reporting		*Financial Reporting*	
Revenue	$500,000	Revenue	$500,000
Depreciation	$100,000	Depreciation	$50,000
Taxable income	$400,000	Pretax income	$450,000
Taxes payable	$160,000	Tax expense	$180,000
Net income	$240,000	Net income	$270,000

Firm 2:

Tax Reporting		*Financial Reporting*	
Revenue	$500,000	Revenue	$500,000
Warranty expense	$0	Warranty expense	$10,000
Taxable income	$500,000	Pretax income	$490,000
Taxes payable	$200,000	Tax expense	$196,000
Net income	$300,000	Net income	$294,000

	Firm 1 Deferred Tax:	Firm 2 Deferred Tax:
A)	$30,000 Asset	$6,000 Asset
B)	$20,000 Asset	$6,000 Liability

C) $20,000 Liability $4,000 Asset

Question #68 of 69

Question ID: 414533

A tax loss carryforward is *best* described as the:

A) net taxable loss that can be used to reduce taxable income in the future.

B) net taxable loss that can be used to refund paid taxes from the previous year.

C) difference of deferred tax liabilities and deferred tax assets.

Question #69 of 69

Question ID: 596410

Which of the following statements about deferred taxes is *most* accurate? Deferred tax liabilities:

A) should be treated as debt when calculating financial statement ratios.

B) arise primarily due to differences between financial and tax accounting.

C) can relate to either permanent or temporary differences.