

Question #1 of 63

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 assets based on the likelihood that those assets will not be realized.
 - C) against deferred tax liabilities based on the likelihood that those liabilities will be paid.
-

Question #2 of 63

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

- A) To report depreciation, a firm uses the double-declining balance method for tax purposes and the straight-line method for financial reporting purposes.
 - B) A firm has differences between taxable and pretax income that are never expected to reverse.
 - C) A firm is unlikely to have future taxable income that would enable it to take advantage of deferred tax assets.
-

Question #3 of 63

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 #4 of 63

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) \$2,080.
 - B) \$1,040.
 - C) \$1,570.
-

Question #5 of 63

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

- A) arise primarily due to differences between financial and tax accounting.
 - B) can relate to either permanent or temporary differences.
 - C) should be treated as debt when calculating financial statement ratios.
-

Question #6 of 63

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) 30%.
 - B) 25%.
 - C) 5%.
-

Question #7 of 63

Deferred tax items should be measured based on the:

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

Question #8 of 63

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) \$1,039.
- C) \$3,144.

Question #9 of 63

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) U.S. GAAP, but not IFRS.
 - B) Neither IFRS nor U.S. GAAP.
 - C) IFRS, but not U.S. GAAP.
-

Question #10 of 63

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 of 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) Increase income tax expense by \$5,000.
 - C) Decrease income tax expense by \$5,000.
-

Question #11 of 63

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*:

	<u>DTA</u>	<u>DTL</u>
A) \$55,500		\$6,650
B) \$55,500		\$7,030
C) \$52,500		\$6,650

Question #12 of 63

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

Question #13 of 63

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.

	<u>Year 1</u>	<u>Year 2</u>
A) \$3,900		\$3,900
B) \$600		-\$200
C) \$3,300		\$4,100

Question #14 of 63

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 increase in equity.
 - B) should be considered an asset or liability.
 - C) must be reduced by a valuation allowance.
-

Question #15 of 63

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.

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

Question #16 of 63

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

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

Question #17 of 63

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:

	<u>Deferred Taxes</u>	<u>Net Income</u>
A) Increase		No effect
B) No effect		Decrease
C) Increase		Decrease

Question #18 of 63

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)?

	<u>Taxes payable</u>	<u>DTL</u>
A) \$20,000		\$3,000
B) \$20,000		\$1,500
C) \$24,000		\$1,500

Question #19 of 63

Permanent differences between taxable and pretax income:

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

Question #20 of 63

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

- A) reduces reported income, reduces assets, and reduces equity.
 - B) reduces reported income, increases liabilities, and reduces equity.
 - C) increases reported income, reduces assets, and reduces equity.
-

Question #21 of 63

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)** sporadic in nature, but the effect is typically neutralized by higher home country taxes on the repatriated profits.
- C)** continuous in nature, so the termination date is not relevant.
-

Question #22 of 63

The Puchalski Company reported the following:

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>
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)** \$80.
- B)** \$40.
- C)** \$120.
-

Question #23 of 63

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

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

Question #24 of 63

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?

- | | <u>Net Income</u> | <u>Depreciation Expense</u> |
|-----------|-------------------|-----------------------------|
| A) | \$4,657 | \$2,748 |
| B) | \$2,748 | \$2,535 |

C) \$2,535 \$3,169

Question #25 of 63

An analyst gathered the following information about a company:

- Taxable income = \$100,000.
- Pretax income = \$120,000.
- Current tax rate = 20%.

Assuming the difference between taxable income and pretax income will reverse in the future, the effect these events on the company's financial statements will be to report income tax expense of:

- A) \$22,000 with no change in deferred tax items.
 - B) \$24,000 and an addition to deferred tax liabilities of \$4,000.
 - C) \$24,000 and a decrease in deferred tax assets of \$4,000.
-

Question #26 of 63

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 #27 of 63

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) \$3,500.

C) \$35,000.

Question #28 of 63

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

A) either current or noncurrent items.

B) current items.

C) noncurrent items.

Question #29 of 63

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

C) an increase in deferred tax liability and an increase in tax expense.

Question #30 of 63

The Puchalski Company reported the following:

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>
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 #31 of 63

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

- A)** a liability.
 - B)** a liability or equity, depending on the company's particular situation.
 - C)** neither as a liability, nor as equity.
-

Question #32 of 63

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

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

Question #33 of 63

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)** both IFRS and U.S. GAAP.
 - C)** IFRS only.
-

Question #34 of 63

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

Question #35 of 63

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) \$780.
 - B) \$1,129.
 - C) \$1,909.
-

Question #36 of 63

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?

	<u>Year 1</u>	<u>Year 2</u>
A) \$600	\$400	
B) \$3,300	\$4,100	
C) \$3,900	\$3,900	

Question #37 of 63

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

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

Question #38 of 63

Year: 2002 2003 2004

Income Statement:

Revenues after all expenses other than depreciation	\$200	\$300	\$400
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Depreciation expense	<u>50</u>	<u>50</u>	<u>50</u>
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Income before income taxes	\$150	\$250	\$350
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Tax return:

Taxable income before depreciation expense	\$200	\$300	\$400
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Depreciation expense	<u>75</u>	<u>50</u>	<u>25</u>
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Taxable income	\$125	\$250	\$375
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Assume an income tax rate of 40%.

The company's income tax expense for 2002 is:

- A) \$50.
- B) \$0.
- C) \$60.

Question #39 of 63

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

- A) increase or decrease the effective tax rate are called temporary differences.
- B) result in deferred tax assets or liabilities are called temporary differences.
- C) are not reversed for five or more years are called permanent differences.

Question #40 of 63

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

Question #41 of 63

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) \$16,000.
 - B) \$8,000.
 - C) \$4,000.
-

Question #42 of 63

For purposes of financial analysis, an analyst should:

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

Question #43 of 63

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 #44 of 63

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) decrease income tax expense.
 - C) increase income tax expense.
-

Question #45 of 63

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) asset of \$21,760.
 - C) liability of \$21,760.
-

Question #46 of 63

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) \$2,079.
 - B) \$1,029.
 - C) \$780.
-

Question #47 of 63

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 #48 of 63

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 tax liabilities are not included in equity, debt-to-equity ratio will be reduced.
 - C)** If deferred taxes are not expected to reverse in the future then they should be classified as equity.
-

Question #49 of 63

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 #50 of 63

Deferred tax liabilities may result from:

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

Question #51 of 63

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)** liability of \$17,000.
 - C)** asset of \$17,000.
-

Question #52 of 63

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, current deferred tax asset, noncurrent deferred tax liability and noncurrent deferred tax asset are each disclosed separately.
 - B) There should be a combined disclosure of all deferred tax assets and liabilities.
 - C) Current deferred tax liability and noncurrent deferred tax asset are netted, resulting in the disclosure of a net noncurrent deferred tax liability or asset.
-

Question #53 of 63

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) Increases in valuation allowances may be a signal that management expects earnings to improve in the future.
 - C) Changes in valuation allowances can be used to manage reported net income.
-

Question #54 of 63

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

- A) difference of deferred tax liabilities and deferred tax assets.
 - B) net taxable loss that can be used to reduce taxable income in the future.
 - C) net taxable loss that can be used to refund paid taxes from the previous year.
-

Question #55 of 63

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

Firm 1:

<i>Tax Reporting</i>		<i>Financial Reporting</i>	
Revenue	\$500,000	Revenue	\$500,000
Depreciation	<u>\$100,000</u>	Depreciation	<u>\$50,000</u>
Taxable income	\$400,000	Pretax income	\$450,000
Taxes payable	<u>\$160,000</u>	Tax expense	<u>\$180,000</u>
Net income	\$240,000	Net income	\$270,000

Firm 2:

<i>Tax Reporting</i>		<i>Financial Reporting</i>	
Revenue	\$500,000	Revenue	\$500,000
Warranty expense	<u>\$0</u>	Warranty expense	<u>\$10,000</u>
Taxable income	\$500,000	Pretax income	\$490,000
Taxes payable	<u>\$200,000</u>	Tax expense	<u>\$196,000</u>
Net income	\$300,000	Net income	\$294,000

Firm 1 Deferred Tax Firm 2 Deferred Tax

- A) \$20,000 Asset \$6,000 Liability
 B) \$20,000 Liability \$4,000 Asset
 C) \$30,000 Asset \$6,000 Asset

Question #56 of 63

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) increase by \$15,000.
 B) decrease by \$50,000.
 C) decrease by \$15,000.

Question #57 of 63

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 #58 of 63

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 based on a tax rate of 30%. Based only on this information, an increase in future tax rates to 35% will cause Habel's total liabilities-to-equity ratio to:

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

Question #59 of 63

Year ending
31 December:

	2002	2003	2004
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Income Statement:

Revenues after all expenses other than depreciation	\$200	\$300	\$400
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Depreciation expense	<u>50</u>	<u>50</u>	<u>50</u>
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Income before income taxes	\$150	\$250	\$350
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Tax return:

Taxable income before depreciation expense	\$200	\$300	\$400
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Depreciation expense	<u>75</u>	<u>50</u>	<u>25</u>
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Taxable income	\$125	\$250	\$375
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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:

- | | <u>2003</u> | <u>2004</u> |
|---------|-------------|-------------|
| A) \$10 | \$0 | |
| B) \$0 | \$10 | |
| C) \$25 | \$20 | |

Question #60 of 63

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 \$10,880.
 - B) asset of \$10,880.
 - C) liability of \$16,320.
-

Question #61 of 63

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 base for this asset at the end of the first year is *closest to*:

- A) \$60,000.
 - B) \$80,000.
 - C) \$40,000.
-

Question #62 of 63

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:

- | | <u>Firm 1</u> | <u>Firm 2</u> |
|----|---------------|---------------|
| A) | increase. | decrease. |
| B) | increase. | increase. |
| C) | decrease. | decrease. |
-

Question #63 of 63

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

- A) Non-deductible expenses.
- B) Tax credits.
- C) Deductible expenses.