

Question #1 of 67

Question ID: 1457792

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

Question #2 of 67

Question ID: 1457814

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 #3 of 67

Question ID: 1457783

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

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

Question #4 of 67

Question ID: 1457790

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 #5 of 67

Question ID: 1457778

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)** Income tax paid can include payments or refunds for other years.
 - C)** Taxes payable are determined by pretax income and the tax rate.
-

Question #6 of 67

Question ID: 1457842

Both IFRS and U.S. GAAP allow deferred taxes to be:

- A)** measured using a substantially enacted tax rate.
 - B)** presented as noncurrent on the balance sheet.
 - C)** recognized in equity after a fixed asset revaluation.
-

Question #7 of 67

Question ID: 1457803

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

Question #8 of 67

Question ID: 1457795

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)** liability of \$17,000.
 - B)** asset of \$48,960.
 - C)** asset of \$17,000.
-

Question #9 of 67

Question ID: 1457824

Permanent differences between taxable and pretax income:

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

Question #10 of 67

Question ID: 1457786

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)** immaterial amount and ignored.
 - C)** liability.
-

Question #11 of 67

Question ID: 1457796

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

Question #12 of 67

Question ID: 1457794

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) \$2,535 | \$3,169 |
|-------------------|---------|

B) \$4,657 \$2,748

C) \$2,748 \$2,535

Question #13 of 67

Question ID: 1457810

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>
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A) Increase Decrease

B) No effect Decrease

C) Increase No effect

Question #14 of 67

Question ID: 1457777

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 #15 of 67

Question ID: 1482635

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

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

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

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

Question #16 of 67

Question ID: 1457807

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 #17 of 67

Question ID: 1457837

Which of the following statements regarding the disclosure of deferred taxes in a company's balance sheet is *most* accurate?

- A) There should be a combined disclosure of all deferred tax assets and liabilities that are likely to reverse in the current period.
 - B) Deferred tax assets and liabilities are classified as noncurrent.
 - 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 #18 of 67

Question ID: 1457793

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) decrease by \$50,000.

C) increase by \$15,000.

Question #19 of 67

Question ID: 1457787

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 #20 of 67

Question ID: 1457827

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) \$90,000.
 - B) \$120,000.
 - C) \$102,000.
-

Question #21 of 67

Question ID: 1457822

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 #22 of 67

Question ID: 1457811

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)** \$1,570.
 - C)** \$1,040.
-

Question #23 of 67

Question ID: 1462851

Fred Company has a deferred tax liability of \$1,200,000. If Fred's tax rate increases from 30% to 40%, the impact of this tax rate change will:

- A)** increase Fred's income tax expense by \$120,000.
 - B)** increase Fred's income tax expense by \$400,000.
 - C)** decrease Fred's income tax expense by \$120,000.
-

Question #24 of 67

Question ID: 1457785

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

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

Question #25 of 67

Question ID: 1457823

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)** are not reversed for five or more years are called permanent differences.
 - C)** result in deferred tax assets or liabilities are called temporary differences.
-

Question #26 of 67

Question ID: 1457784

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

- A)** If deferred taxes are not expected to reverse in the future then they should be classified as equity.
 - B)** Only those components of deferred tax liabilities that are likely to reverse should be considered a liability.
 - C)** If deferred tax liabilities are not included in equity, debt-to-equity ratio will be reduced.
-

Question #27 of 67

Question ID: 1462852

Which of the following statements regarding deferred taxes is *least* accurate?

- A)** A deferred tax asset is created when a temporary difference results in taxable income that exceeds pretax income.
 - B)** A permanent difference is a difference between taxable income and pretax income that will not reverse.
 - C)** Deferred tax assets and liabilities are not adjusted for changes in tax rates.
-

Question #28 of 67

Question ID: 1457817

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 equity to:

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

Question #29 of 67

Question ID: 1457812

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

Question #30 of 67

Question ID: 1457813

An analyst has gathered the following tax information:

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

Assume all the differences between pretax income and taxable income are expected to reverse in the future.

The current tax rate is 40%. 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	\$1,500
B)	\$20,000	\$3,000
C)	\$24,000	\$1,500

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

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)** 5%.
 - C)** 25%.
-

Question #33 of 67

Question ID: 1457779

A temporary difference between pretax income reported in a firm's financial statements and taxable income the firm reports to the tax authorities results in:

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

Question #34 of 67

Question ID: 1457788

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 #35 of 67

Question ID: 1457835

Year:	2002	2003	2004
-------	------	------	------

Income Statement:

Revenues
after all
expenses
other than
depreciation

\$200	\$300	\$400
-------	-------	-------

Depreciation
expense

<u>50</u>	<u>50</u>	<u>50</u>
-----------	-----------	-----------

Income
before
income
taxes

\$150	\$250	\$350
-------	-------	-------

Tax return:

Taxable
income
before
depreciation
expense

\$200	\$300	\$400
-------	-------	-------

Depreciation
expense

<u>75</u>	<u>50</u>	<u>25</u>
-----------	-----------	-----------

Taxable
income

\$125	\$250	\$375
-------	-------	-------

Assume an income tax rate of 40%.

The company's income tax expense for 2002 is:

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

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)	3,300	4,100
B)	3,900	3,900
C)	600	-200

Question #37 of 67

Question ID: 1457802

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)** Asset of \$80.
 - C)** Liability of \$120.
-

Question #38 of 67

Question ID: 1457840

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 #39 of 67

Question ID: 1482634

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

- A)** Increases in valuation allowances may be a signal that management expects earnings to improve in the future.
 - B)** If differences in taxable and pretax incomes are never expected to reverse, a company's equity may be understated.
 - C)** Changes in valuation allowances can be used to manage reported net income.
-

Question #40 of 67

Question ID: 1457789

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)** zero.
 - C)** \$26,000.
-

Question #41 of 67

Question ID: 1482633

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

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

Question #42 of 67

Question ID: 1457816

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)	\$52,500	\$6,650
C)	\$55,500	\$7,030

Question #43 of 67

Question ID: 1457839

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

- A) noncurrent items.
- B) either current or noncurrent items.
- C) current items.

Question #44 of 67

Question ID: 1457799

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)	\$3,900	\$3,900
B)	\$600	\$400
C)	\$3,300	\$4,100

Question #45 of 67

Question ID: 1457808

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)** \$2,079.
 - C)** \$780.
-

Question #46 of 67

Question ID: 1462853

Deferred taxes must be recognized for undistributed earnings from an investment in an associate firm under:

- A)** U.S. GAAP only.
 - B)** both IFRS and U.S. GAAP.
 - C)** neither IFRS nor U.S. GAAP.
-

Question #47 of 67

Question ID: 1482636

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

Question #48 of 67

Question ID: 1457804

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)** \$40.
- B)** \$80.
- C)** \$120.

Question #49 of 67

Question ID: 1457826

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)** Deductible expenses.
 - C)** Tax credits.
-

Question #50 of 67

Question ID: 1457838

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

Question #51 of 67

Question ID: 1457841

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 #52 of 67

Question ID: 1457818

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) | decrease. | decrease. |
| B) | increase. | decrease. |
| C) | increase. | increase. |
-

Question #53 of 67

Question ID: 1457781

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

Question #54 of 67

Question ID: 1457821

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

Question #55 of 67

Question ID: 1457797

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

Question #56 of 67

Question ID: 1457791

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) \$3,500.
 - B) \$31,500.
 - C) \$35,000.
-

Question #57 of 67

Question ID: 1457828

Deferred tax items should be measured based on the:

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

Question #58 of 67

Question ID: 1457815

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

Question #59 of 67

Question ID: 1457780

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

- A) difference between deferred tax liabilities and deferred tax assets.
 - B) net taxable loss that can be used to recover taxes paid previously.
 - C) net taxable loss that can be used to reduce taxable income in the future.
-

Question #60 of 67

Question ID: 1457798

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

Question #61 of 67

Question ID: 1457819

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

Question #62 of 67

Question ID: 1457800

Year ending

31

2002

2003

2004

December:

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) \$0

\$10

- B) \$10 \$0
 - C) \$25 \$20
-

Question #63 of 67

Question ID: 1457801

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) \$10,800.
 - B) \$25,200.
 - C) \$36,000.
-

Question #64 of 67

Question ID: 1457782

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

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

Question #65 of 67

Question ID: 1457806

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) \$779.
 - B) \$1,130.
 - C) \$1,909.
-

Question #66 of 67

Question ID: 1457833

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) continuous in nature, so the termination date is not relevant.
 - B) sporadic in nature, and the analyst should try to identify the termination date and determine if taxes will be payable at that time.
 - C) sporadic in nature, but the effect is typically neutralized by higher home country taxes on the repatriated profits.
-

Question #67 of 67

Question ID: 1457825

Deferred tax liabilities may result from:

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