Q-1. Solution: C.

The Deferred tax asset is based on the temporary difference arising from the difference in the carrying value for taxes vs. the financial statements = (120,000 – 100,000) × 17%= 3,400. The rate that should be used is the rate expected when the reversal will occur which is now the lower rate of 17%.

Q-2. Solution: C.

Income tax expense equals income tax payable (the tax rate multiplied by the taxable income) plus the increase in the deferred tax liabilities.

(0.30 × $215,000) + ($90,650 – $82,400) = $64,500 + $8,250 = $72,750.

Q-3. Solution: B.

The valuation allowance is taken against deferred tax assets to represent uncertainty that future taxable income will be sufficient to fully utilize the assets. By decreasing the allowance, Zimt is signaling greater likelihood that future earnings will be offset by the deferred tax asset.

Q-4. Solution: B.

Under IFRS, debt issuance costs are included in the measurement of the bond liability.

Q-5. Solution: B.

The bonds will be issued at a discount because the market interest rate is higher than the stated rate. Discounting the future payments to their present value indicates that at the time of issue, the company will record £978,938 as both a liability and a cash inflow from financing activities. Interest expense in 2010 is £58,736 (£978,938 times 6.0 percent). During the year, the company will pay cash of £55,000 related to the interest payment, but interest expense on the income statement will also reflect £3,736 related to amortisation of the initial discount (£58,736 interest expense less the £55,000 interest payment). Thus, the value of the liability at 31 December 2010 will reflect the initial value (£978,938) plus the amortised discount (£3,736), for a total of £982,674. The cash outflow of £55,000 may be presented as either an operating or financing activity under IFRS.