

Q-1. A company has a building with a net carrying amount of \$100,000 and a tax base of \$120,000. The tax rate was 20% when the asset was purchased, but it is scheduled to be reduced to 17% this year. Which of the following will the company most likely report related to this building?

- A. Deferred tax asset: \$4,000
- B. Deferred tax liability: \$600
- C. Deferred tax asset: \$3,400

Q-2. The following information is available about a company for its current fiscal year:

| | |
|---|-----------|
| Accounting profit (earnings before taxes) | \$250,000 |
| Taxable income | \$215,000 |
| Tax rate | 30% |
| Income taxes paid in year | \$61,200 |
| Deferred tax liability, start of year | \$82,400 |
| Deferred tax liability, end of year | \$90,650 |

The income tax expense reported on the current year's statement of earnings is closest to:

- A. \$64,500.
- B. \$69,450.
- C. \$72,750.

Q-3. Zimt AG presents its financial statements in accordance with US GAAP. In 2007, Zimt discloses a valuation allowance of \$1,101 against total deferred tax assets of \$19,201. In 2006, Zimt disclosed a valuation allowance of \$1,325 against total deferred tax assets of \$17,325. The change in the valuation allowance most likely indicates that Zimt's:

- A. deferred tax liabilities were reduced in 2007.
- B. expectations of future earning power has increased.
- C. expectations of future earning power has decreased.

Q-4. Under IFRS, the costs incurred in the issuance of bonds are most likely:

- A. deferred as an asset and amortized on a straight-line basis.
- B. included in the measurement of the bond liability.
- C. expensed when incurred.

Q-5. On 1 January 2010, Elegant Fragrances Company issues £1,000,000 face value, five-year bonds with annual interest payments of £55,000 to be paid each 31 December. The market interest rate is 6.0 percent. Using the effective interest rate method of

amortization, Elegant Fragrances is most likely to record:

- A. an interest expense of £55,000 on its 2010 income statement.
- B. a liability of £982,674 on the 31 December 2010 balance sheet.
- C. a £58,736 cash outflow from operating activity on the 2010 statement of cash flows.

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