Financial Accounting Recitation 4 (B Term)

Dian Jiao

Columbia Business School

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Road Map

- Recap of PP&E
- Recap of tax accounting
- The IBM Case
- PS 7
- Class example of tax accounting (if time allows)

PP&E

- Ending PP&E = Beginning PP&E + Purchase - Sale/Disposal (All in gross values)
- Ending Acc Dep = Beginning Acc Dep + Dep Exp - Acc Dep Related to Sale/Disposal
- Gain/Loss on Sale of PP&E = Proceeds - (Gross Value of PP&E - Related Acc Dep) (Gain if positive and loss if negative; Note that the red things equal to each other *only if there's no disposal*)
- Typical roadmap: 1) Use one equation to back out one unknown, x; 2) Use the intermediary result, x, to back out other unknowns in other equations

Tax Accounting

- The discrepancies between GAAP and IRS tax codes cause accounting issues
- Permanent differences: Different jurisdictions; different items for income/tax purposes
- Temporary differences: Differences between GAAP-basis income and tax-basis income resulting from differences in the time of recognition (fluctuate around zero in the long run)
- Effective tax rate (provisions for income taxes) = tax expense / pre-tax income
- Income tax expense...

$$= \text{Tax (current)} \pm \text{Tax (deferred)}$$
$$= \text{Statutory Tax Rate} \times (\text{EBT (Tax Rule)} \pm \text{Temporary Difference})$$
$$= \text{Statutory Tax Rate} \times (\text{EBT (GAAP)} \pm \text{Permanent Difference})$$