st line | accum dep
Acct | Tax | 30% tax rate
(125,000) | 175,000
725,000 | 25,000

Acctg 215
Quiz #3

17

DEFERRED TAXES

Company ABC, Inc. has reached its 1999 year-end and must calculate its tax expense and taxes payable. The GAAP (accounting) rules and the tax rules are identical, as they relate to ABC Inc., except for two items:

- $200,000 of cash received is counted as revenue for tax purposes, but not for accounting purposes.
- The accounting books reflect straight-line depreciation of $125,000 while the tax books reflect accelerated depreciation of $175,000.

Given the above information and a 30% tax rate, answer the following questions.

(3 points) What is the difference between ABC Inc.'s pre-tax Book Income and its taxable income (TI) in 1999?

112,500
-37,500
75,000

ABC's pre-tax Book Income = 125,000 = 37,500
taxable Income = 375,000 = 112,500

(1 point) Is there a deferred tax asset or deferred tax liability involved in 1999?

deferred tax asset

Journal entry

(3 points) Provide the appropriate journal entry to record the 1999 deferred taxes.

accounts ... of the year ...

Tax Expense 37,500
DTA 7,500
Income Tax Payable 112,500

-1

(3 points) Now, disregard everything that you did before now. Assume that in 1999 ABC Inc. recorded a $10,000 deferred tax liability. In 2000, pre-tax book income was $20,000 less than taxable income (TI). The tax rate is now 35%. What journal entry would ACB Inc. record in 2000?

pretax 20,000 TI

DTL 10,000

Tax Expense (TI - 20,000)
DTL debit ~~12,000~~ 7,000
Income Tax Payable (TI)

-2

cash | merch | COGS

500,000

Cash 500,000
Merch 300000
COGS 300000
Rev 500,000

Debt / equity

NI / Sales

COGS 325,000
Merch 325,000

ERROR CORRECTION

In fiscal year 2001, Company XYZ sold merchandise for a total of $500,000 cash. The cost of these goods was actually $300,000, but $325,000 of COGS was actually recorded.

(2 points) What journal entry should be made to correct this error?

~~what we want~~
~~Cash 500,000~~
~~Rev 500,000~~
~~COGS 300,000~~
~~Merch 300,000~~

Merchandise	25,000	
COGS		25,000

A = L + OE

CL OE

NI - Div

Gain - loss

(2 points each) If the above error isn't corrected, what will be the impact on each of the following ratios? Please circle.

CA - CL

5 - 3

Working Capital

Increase Decrease No Change

4/4

Debt / equity

Debt to Equity

Increase Decrease No Change

Inventory Turnover

Increase Decrease No Change

Return on Sales (NI / Net Sales)

Increase Decrease No Change