

Chapter 6 Supplemental Homework

- 1 A Which of the items represent temporary book-tax differences?
- 2 C What amounts enter into computation of effective tax rate?
- 3 C How are deferred tax liabilities and assets categorized on the balance sheet? (Obsolete)
- 4 C Appropriate tax rate for deferred tax amounts.
- 5 A Recognition of valuation account for deferred tax asset.
- 6 D Definition of uncertain tax positions.
- 7 C Recognition of tax benefit with uncertain tax position.
- 8 B Classification of deferred income tax on the balance sheet. (Obsolete)
- 9 D Basis for classification as current or noncurrent. (Obsolete)
- 10 D Income statement presentation of a tax benefit from NOL carryback.

Part 2. Problems

11 B	Best		GAAP	Return
	Revenue		?	?
	Expenses		?	?
	Book net income Before Tax		\$600,000	\$600,000
	Book depreciation Expense	?		
	Depreciation Expense on Tax Return	?		
	Excess Depreciation on Tax Return	\$120,000		(\$120,000)
	Book net income Before Tax		\$600,000	
	Taxable income			\$480,000
	Income tax rate		35%	35%
B	GAAP provision for income tax		\$210,000	
	Income tax currently payable			\$168,000
12 D	Best. Deferred tax liability			
	Difference in basis of fixed assets	\$120,000		
	Income tax rate	35%		
	Deferred tax liability	\$42,000		
Short-cut method (\$210,000, less \$168,000) works if there is no change in future tax rates, etc.				

13 A	North		GAAP	Return
	Revenue		?	
	Expenses		?	
	Book net income Before Tax		\$500,000	\$500,000
	Warranty Expense - GAAP	?		
	Warranty Expense on Tax Return	?		
	Excess GAAP Warranty Expense	\$50,000		\$50,000
	Book net income Before Tax		\$500,000	
	Taxable income			\$550,000
	Income tax rate		35%	35%
13 A	GAAP provision for income tax		\$175,000	
14 B	North. Income tax currently payable			\$192,500

15 B	South- No fixed asset sold in 2017	Book	Tax	Difference
	Depreciation Expense-2016	?	?	\$50,000
	Depreciation Expense-2017	?	?	(\$20,000)
	Total difference in basis at end of 2017			\$30,000
	Deferred Tax Liability - 2016	2016	2017	
	Excess GAAP basis	\$50,000	\$30,000	
		35%	35%	
15 B	South Inc. - Deferred tax liability	\$17,500	\$10,500	
16 B	Cold - Income tax expense for 2016		2016	
	Current tax expense		\$150,000	
	Deferred Tax Benefit			
	Deferred Tax Asset	\$90,000		
	Less: allowance	(\$40,000)	(\$50,000)	
	Total income tax expense		\$100,000	
<p>One type of transaction that could have caused this --- Company had a capital loss of \$300,000, in 2013. If they assumed a 30% future tax rate, the loss carryforward could potentially give savings of \$90,000. The company may have concluded that some loss would expire, with only \$50,000 in savings.</p>				
			2017	
	Cold - GAAP net income before tax for 2017		\$600,000	
	Tax Rate		35%	
	Potential income tax		\$210,000	
	Reduction in valuation account balance		(\$40,000)	
	Total tax expense for 2017.		\$170,000	
Note: company reported no permanent or temporary difference in 2017.				
17 C	Beach's total book income is		\$800,000	
	Current U.S. income tax expense:			
	Taxable income on current U.S. tax return	\$500,000		
	Tax Rate	35%		
		\$175,000		
	Current Irish tax expense is \$30,000.	\$30,000		
	Current income tax expense		\$205,000	
	Deferred U.S. tax expense on the Irish earnings:			
	Irish earnings to be taxed when remitted	\$300,000		
	Tax Rate	35%		
	Total tax on Irish earnings	\$105,000		
	Less Foreign Tax Credit	(\$30,000)		
	Expected U.S. tax payment upon repatriation		\$75,000	
	Total income tax expense		\$280,000	
	Total net income - GAAP Statements		\$800,000	
	Beach's Effective tax rate		35.00%	

18 D	Beach's Current U.S. income tax expense:		
	Taxable income on current U.S. tax return	\$500,000	
	Tax Rate	35%	
	Tax liability shown on Tax Return	\$175,000	
	Current Irish tax expense is \$30,000.	\$30,000	
	Current income tax expense		\$205,000
	Deferred U.S. tax expense on the Irish earnings:		
	Irish earnings to be taxed when remitted (N/A)	\$0	
	Tax Rate	35%	
	Total tax on Irish earnings	\$0	
	Less Foreign Tax Credit	\$0	
	Future U.S. Income Tax to be paid on Irish Earnings		\$0
	Total income tax expense		\$205,000
	Total net income - GAAP Statements		\$800,000
	Beach's Effective tax rate		25.63%

19 C	Charlotte Corp. had pretax income of \$800,000 for the year ended December 31, 2017.		
	In the computation of federal income taxes, the following data were considered:		
	Pre-tax income		\$800,000
	Interest revenue on municipal bonds	\$350,000	(\$350,000)
	Depreciation for tax purposes in excess of GAAP deprec.	\$50,000	(\$50,000)
	Federal estimated tax payments, 2017	\$70,000	
	Enacted federal tax rates, 2017	30%	
	Taxable income		\$400,000
	Enacted federal tax rates, 2017		30%
	Current federal income tax expense on its 2017 income statement?		\$120,000

20 A	Charlotte - Current federal income tax expense on its 2017 income statement?	\$120,000
	Federal estimated tax payments, 2017	(\$70,000)
	Current liability	\$50,000

21 D	Charlotte - Excess of GAAP asset basis over tax basis - current year increase	\$50,000
	Enacted tax rate for year the difference is expected to reverse	30%
	Deferred income tax expense on current year income statement	\$15,000

- 22 A** Concord, Inc. began operations in 2016. No uncollectible accounts were charged off. For tax purposes, the profit from the installment sale will be recognized in 2018. The enacted tax rates are 30% in 2017 and 25% in 2018.

Included in Concord's 2016 financial statements were:			
	GAAP	Future Rate	Future tax impact
Bad debt expense	\$4,000	30%	\$1,200
Profit from an installment sale of	\$6,000	25%	(\$1,500)
Deferred tax expense			\$300

Have current asset and non-current liability. New FASB rule: report net amount as non-current.

23 C Abbot Corporation reported the following information for 2017.

Pretax book income	\$500,000	\$500,000
Pretax book income included the following:		
Increase in the reserve for bad debts	\$5,000	\$5,000
Tax depreciation exceeded GAAP depreciation by	\$40,000	(\$40,000)
Received life insurance proceeds on death of an officer	\$3,000	(\$3,000)
		\$462,000
Income tax rate		34%
Abbot's current income tax expense or benefit is:		\$157,080

24 B Mean Green Corporation reported the following information for 2017.

Pretax book income	\$1,000,000	\$1,000,000
Increase in the reserve for bad debts	\$25,000	
Tax depreciation exceeded GAAP depreciation by	\$100,000	
Dividends received deduction	\$25,000	(\$25,000)
GAAP equivalent to taxable income - Text page 5-8		\$975,000
Income tax rate		34%
Provision for income tax		\$331,500
Mean Green's accounting effective tax rate is:		33.15%

GAAP NIBT, adjusted for permanent differences, gives GAAP equivalent of taxable income.

GAAP equivalent of taxable income includes income taxable now and income taxable in future.

Effective rate computation is affected by temporary items if there is a change in income tax rates over time.

Effective rate computation is affected by permanent differences.

25 C Mill began operations on January 1, 2015. Mill is in the construction business.

Mill recognizes GAAP income using the percentage-of-completion method

Mill recognizes taxable income using the completed-contract method.

The income tax rate was 30% for 2015 through 2017.

For years after 2017, the enacted tax rate is 25%.

Income under each method follows:

Year	Completed Contract	Percentage of Completion	Excess
2015	\$0	\$300,000	\$300,000
2016	\$400,000	\$600,000	\$200,000
2017	\$700,000	\$850,000	\$150,000
			<u>\$650,000</u>
		Tax rate	25%

Mill's deferred income tax liability on Dec. 31, 2017 **\$162,500**

26 B Questions 26 and 27 are based on the following:

UNCC's Corporation's tax rate for 2017 is 40%.

UNCC prepared this reconciliation of its pretax financial statement income to taxable income for year ended Dec. 31, 2015, its first year of operations.

UNCC. Pretax financial income	\$160,000
Nontaxable interest received on municipal securities	(5,000)
Long-term loss accrual in excess of deductible amount	10,000
Depreciation on tax return in excess of GAAP amount	(25,000)
Taxable income	\$140,000
Tax rate	40%
Tax liability on current income tax return	\$56,000

27 C	UNCC Long-term loss accrual in excess of deductible amount	\$10,000	Tax asset
	Depreciation on tax return in excess of GAAP amount	(25,000)	Tax liability
	Net difference in GAAP and tax basis	(\$15,000)	
	Tax rate	40%	
	Deferred income tax expense/Deferred income tax liability	(\$6,000)	

Note: asset and liability are netted on balance sheet, both are long term.

28 C **Black Co., organized on January 2, 2012.**

Black had pretax 2012 accounting income of \$509,000 and taxable income of \$800,000. The only temporary difference is accrued product warranty costs will be paid as follows:

2013	\$100,000
2014	\$50,000
2015	\$50,000
2016	\$100,000
Total liability	\$300,000

Do you agree that there seems to be a permanent difference in 2012? Example?

Black has never had a NOL (book or tax) and does not expect any in the future.

There was no temporary difference in prior years.

The enacted income tax rates are 35% for 2012, 30% for 2013 through 2015, and 25% for 2016.

In Black's December 31, 2012 balance sheet, the deferred income tax asset should be

Year of payment	Basis difference	Tax Rate	Future tax saving
2013	\$100,000	30%	\$30,000
2014	\$50,000	30%	\$15,000
2015	\$50,000	30%	\$15,000
2016	\$100,000	25%	\$25,000
	\$300,000		\$85,000

29 A	Taxable income	\$150,000
	Tax rate	30%
	Income Tax-Current	\$45,000

Book-Tax differences are permanent differences. So there is no deferred tax expense or benefit.

30 D **Niner Corp.'s pretax income in 2017 was \$100,000.**

The temporary differences between GAAP statements and the tax return are as follows:

UNCC Corp.'s pretax income in 2017 was	\$100,000	\$100,000
Depreciation on tax return exceeded GAAP deprec.	\$8,000	(\$8,000)
Equity method of accounting -GAAP income of:	\$35,000	(\$35,000)
A dividend was received during the year	\$25,000	\$25,000
Dividend is eligible for 80% dividends received deduction.		(\$20,000)
		\$62,000
UNCC's effective income tax rate was 30% in 2017.		30%
UNCC's 2015 current provision for income taxes:		\$18,600
Assumed future dividends from current subsidiary income	\$10,000	
Dividend is eligible for 80% dividends received deduction.	\$8,000	
Assumed additional future income tax (on dividends)	\$2,000	
UNCC's effective income tax rate is 30%	30%	
Deferred income tax expense related to subsidiary income		\$600
Deferred income tax expense related to depreciation - 30%		\$2,400

31 D	Excess of GAAP basis over Tax Basis	\$250,000
	Enacted future tax rates	40%
	Deferred tax liability	\$100,000

32 A Lehman. $(\$960,000 - \$600,000) \times 30\% = \$108,000$ Noncurrent.

Year	GAAP-Deprec.	Tax-Deprec.	Basis difference
2015	\$600,000	\$600,000	
2016	\$600,000	\$960,000	\$360,000
Cumulative - 2016	\$1,200,000	\$1,560,000	\$360,000
Future tax rate			30%
Deferred tax liability			\$108,000

Apparently, depreciation is the same for first year, due to mid-year convention for tax.

33 A **Example 6-11 on text page 6-17. Scheduling of current & non-current temporary differences.**

Income taxes payable = $(\$1,200,000 \times 30\%) = \$360,000$

Change in deferred tax liability = $(\$1,600,000 \times 30\%) = \$480,000$

Change in deferred tax asset = $(\$2,000,000 \times 30\%) = \$600,000$

$\$360,000 + \$480,000 - \$600,000 = \$240,000$.

	GAAP	Tax Return	Taxable (Deductible) Amounts	
	2016	2016	2017	2018
Pretax financial income	\$800,000	\$800,000		
Estimated litigation expense		\$2,000,000		(\$2,000,000)
Gross profit-install. sales		(\$1,600,000)	\$800,000	\$800,000
Taxable income		\$1,200,000		
Future Taxable (Ded.) Amts			\$800,000	(\$1,200,000)
Tax rate	30%	30%	30%	30%
33 A Tax- total and current exp.	\$240,000	\$360,000		
Defer. tax asset-non-current				\$600,000
Defer. tax liab-current			\$240,000	\$240,000

Summary	Current	Non-current
Deductible amount		\$2,000,000
34 D Deferred tax asset		\$600,000
Taxable amount	\$800,000	
35 C Deferred tax liability	\$240,000	

Litigation expense

Installment sale

Note: The FASB requires all deferred tax accounts to be reported as non-current. Problem above is out of date.

36 D Deferred tax expense	\$90,000
Tax rate	30%
Book tax difference	\$300,000
Add Depreciation on Financial Statements	\$2,400,000
Depreciation on Tax Return	\$2,700,000

37 B 2016 Temporary Differences	\$1,800,000
Minus 2017 Temporary Diff.	(\$1,280,000)
Change in Temp. Diff.	\$520,000
2017 Taxable Income	\$3,200,000

2017 Pre-Tax Income	\$2,680,000
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Taxable income minus change in temporary differences

38 B	Taxable Income	\$2,400,000
	Book Income	\$1,500,000
	Book-Tax Differences	\$900,000
	Tax Rate	35%
	Deferred Tax Asset	\$315,000

Taxable income exceeds book income

Will pay more taxes now and less taxes later, DTA

Enacted rate for 2017

39 D	Estimated Loss on Disposal	\$2,400,000
	Tax Rate	30%
	Deferred Tax Asset	\$720,000

Future deductible amount

Insurance premiums with company as beneficiary are not deductible

40 D	Pre-Tax Income	\$1,800,000
	Rent received in advance	\$64,000
	Municipal bond income	(\$80,000)
	Excess tax depreciation	(\$40,000)
	Installment sales revenue	(\$108,000)
	Subtotal	\$1,636,000
	Tax Rate	40%
	Income taxes payable	\$654,400

Deduct, non-taxable

Deductible for tax

Not collected until 2018

- 41 A Rent received in advance is a temporary difference that increases current taxable income and creates a deferred tax asset

Future Deductible Amounts	\$64,000
Tax Rate	40%
Deferred Tax Asset	\$25,600

42 B	Pre-Tax Income	\$345,000
	Gross profit on installment sales	(\$288,000)
	Depreciation	(\$90,000)
	Unearned rent revenue	\$300,000
	Taxable Income	\$267,000

43 A	2017 Taxable Revenues	\$33,000
	2017 Enacted Tax Rate	35%
	Deferred Tax Liability	\$11,550

44 D	Taxable Temporary Difference	\$600,000
	2016 Enacted Rates	30%
	Deferred Tax Liability based on 2016 rates	\$180,000
	New Rates for 2017	40%
	New Deferred Tax Liability-2017 rates	\$240,000
	Increase in DTL	\$60,000

Will reverse in 2020

600,000 * (40% - 30%)

Income Tax Expense \$60,000
 Deferred Tax Liability \$60,000

45 B Excess Tax Depreciation \$150,000 Reverses in equal amounts over 3 years
 Enacted Rates

2017 Reversal	\$50,000	35%	\$17,500
2018 Reversal	\$50,000	35%	\$17,500
2019 Reversal	\$50,000	30%	\$15,000
Deferred Tax Liability			\$50,000

46 D

2017 Net Operating Loss	\$1,950,000	Can carry back 2 years and forward 20 years
Carryback to 2015	\$900,000	
Carryback to 2016	\$1,050,000	
Total carryback	\$1,950,000	
Tax Rate	30%	Have enough income in prior years to use all of NOL
Tax Savings	\$585,000	
Net 2017 Loss after Cback	\$1,365,000	2017 NOL. minus tax savings

47 A

2017 Net Operating Loss	\$800,000	Carry back to oldest year first
Carryback to 2015	\$800,000	
2015 Tax Rate	30%	
Income Tax Refund Receivable	\$240,000	

48 A

Pre-tax income	\$1,500,000
Municipal bond income	(\$60,000)
Excess depreciation	(\$120,000)
Taxable income	\$1,320,000
Tax rate	30%
Tax liability	\$396,000
Minus estimated payments made	(\$300,000)
Current tax liability	\$96,000

49 D

Betz net income	\$720,000	Undistributed earnings will be distributed as dividends in the future
Dividends paid by Betz	(\$240,000)	
Betz Profit - not distributed	\$480,000	
Ownership percentage	40%	
Share of distributed earnings	\$192,000	
Tax rate	30%	
Increase in DTL	\$57,600	