**ACC423 – Intermediate Accounting II**

**Individual Assignment – Week 4**

This assignment is worth a total of 75 points distributed evenly among the four problems. It will be graded based upon both the accuracy of your solutions (2/3) and effort (1/3). Points for effort will be impacted by poor formatting, poor organization, clear lack of effort, lack of supporting calculations, and careless errors. Any simple arithmetic errors, unbalanced journal entries, or unbalanced schedules will result in zero effort points for that problem. Show your work and double check your math and entries!

**Problem 1:**

The following information pertains to OMV Company for 2013:

|  |  |
| --- | --- |
| Deferred Tax Liability, January 1: | $76,000 |
| Related Cumulative Temporary Difference December 31: | $240,000 |
| Pretax Accounting Income: | $627,000 |
| Taxable Income: | $502,000 |
| Tax Rate: | 38% |

The cumulative temporary difference is expected to reverse evenly over the next four years.

The tax rate is expected to remain unchanged for the foreseeable future.

OMV Company closes its accounting year on December 31.

Instructions:

1. Compute income taxes payable for 2013.
2. Prepare the journal entry for 2013 to record the following:

	1. Income tax expense
	2. Deferred income taxes
	3. Income taxes payable
3. Prepare a partial income statement beginning with “Income before income taxes” and ending with “Net income”.

**Problem 2:**

Consider each of the following independent items that may affect the reporting of net income for tax purposes versus the reporting of net income for financial reporting purposes.

1. A corporation received a payment from a life insurance policy due to the death of a corporate officer. It is the corporation’s policy to carry life insurance policies on key officers of the company.
2. The OSN Company received payments for magazines that will be published and sent to customers next year.
3. A company has properly estimated and recorded the amount of expense it will incur under the return of products for repair or replacement under the products’ three year warranty.
4. A company was sued as a result of a traffic accident involving one of its delivery trucks. The suit will not come to trial until the following year but the company’s attorneys have estimated that it is likely the company will have to pay a significant sum. As a result, the company has properly recorded a contingent liability expense.
5. As a result of the traffic accident in number 4, the company was fined for operating an unsafe vehicle.
6. A company paid an insurance premium for fire protection on their factory the next fiscal year.
7. The receipt of interest income from the investment in bonds issued by the City of Springfield to raise funds to be used in a public works project.
8. As a company benefit, the company provides life insurance to all of its employees and pays the full premium. Each employee designates the beneficiary of his or her individual policy.
9. A company grants stock options to key employees under which they may purchase company stock in the next year at a discount from the current market price of the stock. The company properly records the estimate of cost in the current fiscal year.
10. Depreciation expense for tax purposes amounted to $207,000. The company reported total depreciation on its income statement in the amount of $152,000.

Instructions:

For each of the above independent situations:

1. Identify if the item results in:

	1. No difference between financial reporting purposes and tax purposes.
	2. A temporary difference between financial reporting purposes and tax purposes.
	3. A permanent difference between financial reporting purposes and tax purposes.

And,

1. Identify if the item results in:

	1. A deferred tax asset
	2. A deferred tax liability
	3. Neither a deferred tax asset nor a deferred tax liability.

**Problem 3:**

Instructions:

Fill in the blanks:

1. Current tax expense is reported as $75,000 on the income statement along with a current deferred tax liability of $15,000. Total income tax expense will be reported as $\_\_\_\_\_\_\_\_.
2. Permanent differences will \_\_\_\_\_\_\_\_\_\_ (sometimes, always, never) result in a deferred tax asset.
3. A decrease in the Deferred Tax Asset account on the balance sheet will be recorded by a \_\_\_\_\_\_\_\_\_\_ (debit, credit) to the Income Tax Expense account.
4. Taxes due according to the tax return are $56,000. Income tax expense on the income statement shows $68,000. The difference is a \_\_\_\_\_\_\_\_\_\_ (deferred tax expense, deferred tax benefit).
5. The balance sheet shows a deferred tax liability of $207,000. If the company’s tax rate is 38%, the amount of the underlying cumulative temporary difference is \_\_\_\_\_\_\_\_\_\_.
6. On the income statement, total income tax expense is shown as $46,000 and deferred tax expense is shown as $53,000. The current portion of the tax expense will be shown as a \_\_\_\_\_\_\_\_\_\_ (current tax benefit, current tax expense).
7. In a period in which a temporary tax difference, resulting from a deferred tax asset, reverses, the result will be taxable income that is \_\_\_\_\_\_\_\_\_\_ (less than, greater then, the same as) pretax financial income.
8. Pretax financial income is $45,000. During the period, the deferred tax asset account increased $13,000. If the company’s income tax rate is 36%, the tax return will show a tax amount due of \_\_\_\_\_\_\_\_\_\_.
9. At the beginning of the year, there was no deferred tax liability account. At the end of the year, the deferred tax liability account showed a credit balance of $14,000. Taxable income was \_\_\_\_\_\_\_\_\_\_ (higher, lower) than pretax financial income.
10. The tax effect of a temporary difference that results in lower taxes in future years is recorded as a \_\_\_\_\_\_\_\_\_\_ (deferred tax asset, deferred tax liability).

**Problem 4:**

The following information is from The TJL Company.

|  |  |  |
| --- | --- | --- |
|  | Pretax financial income (loss) | Income Tax Rate |
| 2010 | $1,110,000  | 36% |
| 2011 | 620,000  | 31% |
| 2012 | 230,000  | 28% |
| 2013 | (1,190,000) | n/a |
| 2014 | 420,000  | 28% |
| 2015 | 230,000  | 28% |
| 2016 | (390,000) | n/a |

The TJL Company uses the NOL carryback provision as available.

It is expected that any NOL carryforwards will be fully recovered.

The income statements reported no irregular or extraordinary items during the years listed. There were no tax differences between pretax financial income and taxable income in any year.

The TJL Company’s fiscal year ends on December 31 and income taxes for the year are due and paid on March 15th of the following year. Assume that any tax receivables are received on June 15th, three months after the return is due.

Instructions:

Record all journal entries related to income taxes for the above years.