corporation's income statement were the same as the income taxes paid during that period.

Now I am not so sure because some other students mentioned interperiod income tax allocation. Also, I have heard about comprehensive and partial allocation. I am confused. Please explain this to me."

Required:
Prepare a written response for your friend. In your discussion, be sure to discuss permanent and temporary differences and to compare comprehensive allocation with partial allocation. Include the reasons for interperiod allocation and comprehensive allocation.

C18-3 Operating Losses
LO 18.5

The Internal Revenue Code allows a corporation to carry back or carry forward an "operating loss" for a given year.

Required:
1. Describe an operating loss carryback and a carryforward.
2. For a carryback, identify and briefly explain the two important conceptual questions.
3. For a carryforward, identify and briefly explain the two important conceptual questions.
4. Briefly summarize the generally accepted accounting principles for the financial reporting of (a) an operating loss carryback and (b) an operating loss carryforward.

C18-4 Interperiod and Intraperiod Tax Allocation
LO 18.2
LO 18.6

Income tax allocation is an integral part of generally accepted accounting principles. Income tax allocation consists of both intraperiod and interperiod tax allocation.

Required:
1. Explain the difference between interperiod and intraperiod income tax allocation.
2. Explain how a corporation discloses its income tax expense (or credit) for the year under intraperiod allocation.
3. Provide an example of intraperiod tax allocation on a corporation's income statement that includes income from continuing operations, a loss from the sale of a discontinued component, and a gain from the operations of the discontinued. Assume a 30% tax rate.

CREATIVE AND CRITICAL THINKING

C18-5 Deferred Tax Assets and Liabilities
LO 18.2

A friend says to you, "I don't understand how taxable temporary differences can be 'liabilities' and how deductible temporary differences can be 'assets.' It seems to me that these temporary differences relate only to the future and that accounting is based on 'historical cost.' In addition, the government frequently changes the tax laws, so no one knows what the future tax laws will be."

Required:
Prepare a written response for your friend that explains why deferred tax assets and deferred tax liabilities are recognized and reported on a corporation's balance sheet. Include a discussion of a valuation allowance.

C18-6 Interperiod Tax Allocation
LO 18.2
AICPA Adapted

Chris Green, CPA, is auditing Rayne Co.'s 2016 financial statements. For the year ended December 31, 2016, Rayne is applying GAAP for income taxes. Rayne's controller, Dunn, has prepared a schedule of all differences between financial statement and income tax return income. Dunn believes that as a result of pending legislation, the enacted tax rate at December 31, 2016, will be increased for 2017. Dunn is uncertain which differences to include and which rates to apply in computing deferred taxes. Dunn has requested an overview of GAAP from Green.

Required:
Prepare a brief memo to Dunn from Green that identifies the objectives of accounting for income taxes, defines temporary differences, explains how to measure deferred tax assets and liabilities, and explains how to measure deferred income tax expense or benefit.

C18-7 Permanent and Temporary Differences
LO 18.3
LO 18.4

To implement interperiod income tax allocation, an accountant must be able to distinguish between permanent and temporary differences. The following is a list of three differences between a corporation's pretax financial income and taxable income:

a. Estimated warranty costs (covering a 3-year warranty) are expensed for financial reporting purposes at the time of sale but are deducted for tax purposes when incurred.
b. MACRS depreciation for income tax purposes exceeds straight-line depreciation for financial reporting purposes.
c. Percentage depletion for tax purposes exceeds cost depletion for financial reporting purposes.

(continued)