3. Which one of the following is a temporary difference between book and taxable income?

_____ a. Bad debt expense

_____ b. Dividends received deduction

_____ c. Fines for law violations

_____ d. Interest received on municipal bonds

4. Temporary differences that will cause taxable income to be lower than book income in future periods give rise to:

_____ a. deferred tax assets.

_____ b. deferred tax liabilities.

_____ c. expense.

_____ d. permanent differences.

5. Which one of the following is a permanent difference between book and taxable income?

_____ a. Bad debt expense

_____ b. Installment sales

_____ c. Interest received on municipal bonds

_____ d. Warranty expense

8. Matthew Company reported $350,000 in income before income tax for financial reporting (book) purposes in Year 3, its first year of operation. The tax depreciation exceeded its book depreciation by $30,000. The tax rate for Year 3 and all future years is 40%. What would the income tax expense reported on Matthew's income statement for Year 3 be?

_____ a. $120,000

_____ b. $128,000

_____ c. $140,000

_____ d. $152,000

9. Matthew Company reported $350,000 in income before income tax for financial reporting (book) purposes in Year 3, its first year of operation. The tax depreciation exceeded its book depreciation by $30,000. The tax rate for Year 3 and all future years is 40%. The journal entry to record the taxes for Matthew Company at December 31, Year 3, would be which one of the following?

_____ a.	DR Income tax expense	140,000	
	CR Deferred income tax payable		12,000
	CR Income tax payable		128,000
_____ b.	DR Income tax expense	128,000	
	CR Cash		128,000
_____ c.	DR Income tax expense	140,000	
	CR Cash		140,000
_____ d.	DR Income tax expense	152,000	
	CR Deferred income tax payable		140,000
	CR Income tax payable		12,000

12. William Company reported $550,000 in financial (book) income before taxes for Year 3. Tax depreciation for the year exceeded book depreciation by $50,000. The tax rate for Year 3 was 30%, and Congress enacted a tax rate of 40% for years after Year 3. If William paid no estimated taxes, what is the amount of income tax payable reported on William's balance sheet at December 31, Year 3?

____ a. $120,000

____ b. $122,500

____ c. $150,000

____ d. $170,000

13. Amanda Company began manufacturing operations on January 2, Year 4. In Year 4, Amanda earned a pretax book income of $300,000 and had taxable income of $400,000. The difference related to accrued product warranty costs which are expected to be paid out as follows: Year 5: $60,000; Year 6: $30,000; and Year 7: $10,000. The enacted tax rates are 30% for Years 4 and 5 and 40% for Years 6 and 7. The deferred tax to be reported on Amanda's December 31, Year 4, balance sheet is a:

____ a. $30,000 deferred tax asset.

____ b. $30,000 deferred tax liability.

____ c. $34,000 deferred tax asset.

____ d. $34,000 deferred tax liability.

16. At the beginning of Year 1, Kellan Company purchases a machine costing $6,000 with a 3-year estimated service life and no salvage value. For financial reporting (book) purposes, Kellan uses straight-line depreciation with a 3-year life. For income tax reporting, the machine is depreciated with a 2-year life. The machine is used to manufacture a product that will generate annual revenue of $5,000 for three years. Warranty expenses are estimated at 10% of revenues each year; all repairs are provided in Year 3. The tax rate is 40% in all three years. What is the balance at the end of Year 2 of Kellan's deferred tax asset and deferred tax liability?

_____ a. $200 asset; $400 liability

_____ b. $400 asset; $800 liability

_____ c. $800 asset; $800 liability

_____ d. $1,000 asset; $800 liability

17. A corporation that incurs a pretax operating loss must:

_____ a. carryback the loss for tax purposes.

_____ b. carryforward the loss for tax purposes.

_____ c. choose to both carryback and carryforward the loss or to only carryback the loss.

_____ d. choose to both carryback and carryforward the loss or to only carryforward the loss.

20. The ratio of pretax book income to taxable income per tax return is the __________ ratio.

_____ a. acid-test

_____ b. earnings conservatism

_____ c. income

_____ d. times taxes earned