■ *Achievement Exam*

Select the single best answer for each question or statement, then go online to www.myashworth.com and enter your answers.

1. The allocation of income tax expense across periods when book and tax income differ is called __________ allocation.

_____ a. current income tax

_____ b. constructive receipt

_____ c. interperiod tax JN

_____ d. intraperiod tax

2. The allocation of the tax cost (benefit) across various components of book income within a given period is called __________ allocation.

_____ a. current income tax JN

_____ b. constructive receipt

_____ c. interperiod tax

_____ d. intraperiod tax

6. 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 amount of deferred income tax should Matthew report in its December 31, Year 3, balance sheet?

_____ a. $8,000 deferred tax asset

_____ b. $9,000 deferred tax liability

_____ c. $10,000 deferred tax asset

_____ d. $12,000 deferred tax liability

7. 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%. If Matthew paid no estimated taxes, what amount of income taxes payable should be reported in its December 31, Year 3, balance sheet?

_____ a. $100,000

_____ b. $120,000

_____ c. $128,000

_____ d. $140,000

10. 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. What is the deferred tax reported on William's December 31, Year 3, balance sheet?

_____ a. $15,000 deferred tax asset

_____ b. $15,000 deferred tax liability

_____ c. $20,000 deferred tax asset

_____ d. $20,000 deferred tax liability

11. 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. How much is the income tax expense reported on William's income statement for Year 3?

_____ a. $120,000

_____ b. $125,000

_____ c. $150,000

_____ d. $170,000

14. 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. If Amanda paid no estimated taxes, what is the income tax payable to be reported at the end of Year 4?

_____ a. $120,000

_____ b. $125,000

_____ c. $130,000

_____ d. $134,000

15. 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. What is the income tax expense to be reported by Amanda on the Year 4 income statement?

_____ a. $86,000

_____ b. $90,000

_____ c. $130,000

_____ d. $134,000

18. What circumstances lead to the recording of a deferred tax asset?

_____ a. A deferred tax asset results when a transaction results in a difference that causes financial income to be less than taxable income.

_____ b. A deferred tax asset results when a transaction results in a difference that causes taxable income to be less than financial income.

_____ c. A deferred tax asset results when a transaction reverses a difference, causing financial income to be less than taxable income.

_____ d. A deferred tax asset results when a transaction reverses a difference, causing taxable income to be less than financial income.

19. The balance in the deferred tax asset valuation allowance was $23 million in Year 5 and $16 million in Year 6. What effect did the change in this allowance have on the Year 6 income statement?

_____ a. Decreases in the allowance suggest that the firm does not expect to realize future sources of taxable income.

_____ b. The decline in the valuation allowance is recognized as nonoperating income on the income statement.

_____ c. The decline in the valuation allowance is recognized as an increase in income from continuing operations because of lower income tax expense.

_____ d. The decline in the valuation allowance does not affect the income statement since it is offset by a lower deferred tax asset amount.