FINAL EXAM

Course # 171035
Accounting For Income Tax

based on the electronic .pdf file(s):

Accounting For Income Tax
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4 CPE Credit Hours
Accounting & Auditing

This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.

Chapter 0 - Course Material

1. The relationship between income tax currently payable and income tax expense is that income tax currently payable
   - ______ Is always equal to income tax expense.
   - ______ May be greater than but not less than income tax expense.
   - ______ May be less than but not greater than income tax expense.
   - ______ May differ from income tax expense.

2. Temporary differences arise when expenses are deductible for tax purposes in a period
   - ______ Not before or after they are recognized in financial income.
   - ______ Before they are recognized in financial income, but not after.
   - ______ Both after and before they are recognized in financial income.
   - ______ After they are recognized in financial income, but not before.

3. Which of the following is a temporary difference classified as a revenue or gain that is taxable after it is recognized in financial income?
   - ______ Subscriptions received in advance.
   - ______ Prepaid royalty received in advance.
   - ______ An installment sale accounted for on the accrual basis for financial reporting purposes and on the installment (cash) basis for tax purposes.
   - ______ Interest received on a municipal obligation.

4. A temporary difference arises when a revenue item is reported for tax purposes in a period
   - ______ Both after and before they are recognized in financial income.
   - ______ After they are recognized in financial income, but not before.
   - ______ Before they are recognized in financial income, but not after.
   - ______ Not before or after they are recognized in financial income.

5. A company uses the equity method to account for a business investment. This would result in what type of difference and in what type of deferred income tax?
   - ______ Permanent difference, and a deferred tax asset
   - ______ Permanent difference, and a deferred tax liability
   - ______ Temporary difference, and a deferred tax asset
   - ______ Temporary difference, and a deferred tax liability

6. Machinery was acquired at the beginning of the year. Depreciation recorded during the life of the machinery could result in
   - ______ Future taxable amounts and future deductible amounts.
   - ______ Future taxable amounts, but NOT future deductible amounts.
   - ______ Future deductible amounts, but NOT future taxable amounts.
   - ______ Neither future taxable amounts nor future deductible amounts.

7. Orleans Co., a cash-basis taxpayer, prepares accrual-basis financial statements. In its current year balance sheet, Orleans's deferred income tax liabilities increased compared with those reported for

the prior year. Which of the following changes would cause this increase in deferred income tax liabilities? 1: An increase in prepaid insurance; 2: An increase in rent receivable; 3: An increase in warranty obligations.

- ______ 1 only.
- ______ 1 and 2 only.
- ______ 2 and 3 only.
- ______ 4 only.

8. Taxable income of a corporation

- ______ Differs from accounting income due to differences in intraperiod allocation between the two methods of income determination.
- ______ Differs from accounting income due to differences in interperiod allocation and permanent differences between the two methods of income determination.
- ______ Is based on generally accepted accounting principles.
- ______ Is reported on the corporation's income statement.

9. At the December 31, 2X12 balance sheet date, Unruh Corporation reports an accrued receivable for financial reporting purposes but not for tax purposes. When this asset is recovered in 2X13, a future taxable amount will occur and

- ______ Pretax financial income will exceed taxable income in 2X13.
- ______ Unruh will record a decrease in a deferred tax liability in 2X13.
- ______ Total income tax expense for 2X13 will exceed current tax expense for 2X13.
- ______ Unruh will record an increase in a deferred tax asset in 2X13.

10. Which of the following are temporary differences that are normally classified as expenses or losses that are deductible after they are recognized in financial income?

- ______ Advance rental receipts.
- ______ Product warranty liabilities.
- ______ Depreciable property.
- ______ Fines and expenses resulting from a violation of law.

11. A company records an unrealized loss on short-term securities. This would result in what type of difference and in what type of deferred income tax?

- ______ Temporary difference, and a deferred tax liability
- ______ Temporary difference, and a deferred tax asset
- ______ Permanent difference, and a deferred tax liability
- ______ Permanent difference, and a deferred tax asset

12. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Which of the following kinds of evidence is considered in making this determination?

- ______ Only positive evidence
- ______ Positive and Negative evidence
- ______ Only negative evidence
- ______ Neither positive nor negative evidence

13. Uncertain tax positions: 1. Are positions for which the tax authorities may disallow a deduction in whole or in part; 2. Include instances in which the tax law is clear and in which the company believes an audit is likely; 3. Give rise to tax expense by increasing payables or increasing a deferred tax liability.

______ 1, 2, and 3.

______ 1 and 3 only.

______ 2 only.

______ 1 only.

14. With regard to uncertain tax positions, GAAP requires that companies recognize a tax benefit when

______ It is probable and can be reasonably estimated.

______ There is at least a 51% probability that the uncertain tax position will be approved by the taxing authorities.

______ It is more likely than not that the tax position will be sustained upon review.

______ Any of the above exists.

15. Taxable income of a corporation differs from pretax financial income because of

______ Neither permanent differences nor temporary differences.

______ Temporary differences, but not permanent differences.

______ Permanent differences and temporary differences.

______ Permanent differences, but not temporary differences.

16. A major distinction between temporary and permanent differences is

______ Permanent differences are not representative of acceptable accounting practice.

______ Temporary differences occur frequently, whereas permanent differences occur only once.

______ Once an item is determined to be a temporary difference, it maintains that status; however, a permanent difference can change in status with the passage of time.

______ Temporary differences reverse themselves in subsequent accounting periods, whereas permanent differences do not reverse.

17. An example of a permanent difference is

______ Proceeds from life insurance on officers.

______ Interest expense on money borrowed to invest in municipal bonds.

______ Insurance expense for a life insurance policy on officers.

______ All of these.

18. Deferred taxes should be presented on the balance sheet

______ As one net debit or credit amount.

______ In two amounts: one for the net current amount and one for the net noncurrent amount.

______ In two amounts: one for the net debit amount and one for the net credit amount.

______ As reductions of the related asset or liability accounts.

19. Recognition of tax benefits in the loss year due to a loss carryforward requires

______ The establishment of a deferred tax liability.

______ The establishment of a deferred tax asset.

______ The establishment of an income tax refund receivable.

_____ Only a note to the financial statements.

20. The manner of reporting the tax benefit of an operating loss carryforward or carryback is determined by the source of the

    _____ Income or loss in the current year.

    _____ Expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year.

    _____ Operating loss carryforward in a prior year.

    _____ Taxes paid in a prior year.

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- *Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.*
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