

(One Temporary Difference, Tracked for 4 Years, One Permanent Difference, Change in Rate)

The pretax financial income of Parker-Gregory Company differs from its taxable income through of 4 years as follows.

Year	Pretax Financial Income	Taxable Income	Tax Rate
2007	\$280,000	\$180,000	35%
2008	320,000	225,000	40%
2009	350,000	270,000	40%
2010	420,000	580,000	40%

Pretax financial income for each year includes a nondeductible expense of \$30,000 (never deducted for tax purposes). The remainder of the difference between pretax financial income and taxable income in each period is due to one depreciation temporary difference. No deferred income taxes exist at the beginning of 2007.

throughout each

(a) Prepare journal entries to record income taxes in all 4 years. The tax rate to 40% was not enacted until the beginning of 2008.

First we compute the amount of temporary difference originating each year and the resulting cumulative temporary difference at each year-end:

taxable for
income in
d at the

Pretax financial income
Nondeductible expense
Subtotal
Taxable income
Temporary difference originating (reversing)

Cumulative Temporary Difference	
	2007
	2008
	2009
	2010

Journal entry for 2007:

Income Tax Expense	Income Tax Payable	Deferred Tax Liability
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Income Tax Expense	Deferred Tax Liability
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Income Tax Expense	Income Tax Payable	Deferred Tax Liability
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Income Tax Expense	Income Tax Payable	Deferred Tax Liability
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Income Tax Expense

Deferred Tax Liability

Income Tax Payable