

## Exercise E19-6

### (Identify Temporary or Permanent Differences)

Listed below are items that are commonly accounted for differently for financial reporting purposes than they are for tax purposes.

For each item below, indicate whether it involves:

- (1) A temporary difference that will result in future deductible amounts and, therefore, will usually give rise to a deferred income tax asset.
- (2) A temporary difference that will result in future taxable amounts and, therefore, will usually give rise to a deferred income tax liability.
- (3) A permanent difference.

Use the appropriate number to indicate your answer for each.

- (a)  The MACRS depreciation system is used for tax purposes, and the straight-line depreciation method is used for financial reporting purposes for some plant assets.
- (b)  A landlord collects some rents in advance. Rents received are taxable in the period when they are received.
- (c)  Expenses are incurred in obtaining tax-exempt income.
- (d)  Costs of guarantees and warranties are estimated and accrued for financial reporting purposes.
- (e)  Installment sales of investments are accounted for by the accrual method for financial reporting purposes and the installment method for tax purposes.
- (f)  Interest is received on an investment in tax-exempt municipal obligations.
- (g)  For some assets, straight-line depreciation is used for both financial reporting purposes and tax purposes but the assets' lives are shorter for tax purposes.
- (h)  Proceeds are received from a life insurance company because of the death of a key officer. (The company carries a policy on key officers.)
- (i)  The tax return reports a deduction for 80% of the dividends received from U.S. corporations. The cost method is used in accounting for the related investments for financial reporting purposes.
- (j)  Estimated losses on pending lawsuits and claims are accrued for books. These losses are tax deductible in the period(s) when the related liabilities are settled.
- (k)  Expenses on stock options are accrued for financial reporting purposes.

### Working

- |         |         |          |
|---------|---------|----------|
| (a) (2) | (e) (2) | (i) (3)* |
| (b) (1) | (f) (3) | (j) (1)  |
| (c) (3) | (g) (2) | (k) (1)  |
| (d) (1) | (h) (3) |          |

\* When the cost method is used for financial reporting purposes, the dividends are recognized in the income statement in the period they are received, which is the same period they be must be reported

on the tax return. However, depending on the level of ownership by the investor, 70% or 80% of the dividends received from other U.S. corporations may be excluded from taxation because of a "dividends received deduction." These tax-exempt dividends create a permanent difference.

Exercise E19-9

**(Carryback and Carryforward of NOL, No Valuation Account, No Temporary Differences)**

The pretax financial income (or loss) figures for Synergetics Company are as follows.

2006	\$160,000
2007	250,000
2008	90,000
2009	(160,000)
2010	(350,000)
2011	120,000
2012	100,000

Pretax financial income (or loss) and taxable income (loss) were the same for all years involved. Assume a 45% tax rate for 2006 and 2007 and a 40% tax rate for the remaining years.

Prepare the journal entries for the years 2008 to 2012 to record income tax expense and the effects of the net operating loss carrybacks and carryforwards assuming Synergetics Company uses the carryback provision. All income and losses relate to normal operations. (In recording the benefits of a loss carryforward, assume that no valuation account is deemed necessary.)

Date	Description/Account	Debit	Credit
2008		36,000	
			36,000
2009		72,000	
			72,000
2010		36,000	
			36,000
	(To record carryback)		
2010		104,000	
			104,000
	(To record carryforward)		
2011		48,000	
			48,000
2012		40,000	
			40,000