

1. Depreciation reported on the tax return exceeded depreciation reported on the income statement by \$120,000. This difference will reverse in equal amounts of \$30,000 over the years 2011-2014.
2. Interest received on municipal bonds was \$10,000.
3. Rent collected in advance on January 1, 2010, totaled \$60,000 for a 3-year period. Of this amount, \$40,000 was reported as unearned at December 31, for book purposes.
4. The tax rates are 40% for 2010 and 35% for 2011 and subsequent years.
5. Income taxes of \$320,000 are due per the tax return for 2010.
6. No deferred taxes existed at the beginning of 2010.

Part 1

$$\begin{aligned}
 X(0.40) &= \$320,000 \text{ taxes due for 2010} \\
 X &= \$320,000 \div 0.40 \\
 X &= \mathbf{\$800,000} \text{ taxable income for 2010}
 \end{aligned}$$

Part 2

Taxable income [from part (a)]	\$800,000
Excess depreciation	120,000
Municipal interest	10,000
Unearned rent	(40,000)
Pretax financial income for 2010	<u>\$890,000</u>

Part 3

Date	Description/Account	Debit	Credit
2010	Income tax expense (\$320,000 + \$42,000 - \$14,000)	348,000	
	Deferred tax asset (\$40,000 × 0.35)	14,000	
	Income tax payable (\$800,000 × 0.40)		320,000
	Deferred tax liability (\$120,000 × 0.35)		42,000
2011	Income tax expense (\$343,000 + \$7,000 - \$10,500)	339,500	
	Deferred tax liability [(\$120,000 ÷ 4) × 0.35]	10,500	
	Income tax payable (\$980,000 × 0.35)		343,000
	Deferred tax asset [(\$40,000 ÷ 2) × 0.35]		7,000

Part 4

Income before income taxes	\$890,000
Income tax expense	
Current	\$320,000
Deferred (\$42,000 - \$14,000)	<u>28,000</u>
Net income	<u>\$542,000</u>