

**Problem-Solving Assignment 7 (E19-19, E19-21)**

**Instructions**

- (a) Prepare the journal entry to record income tax expense, deferred income taxes, and income taxes payable for 2016.
- (b) Indicate how deferred income taxes will be reported on the balance sheet at the end of 2016.

**E19-19 (L01,2,4) (Two Temporary Differences, Multiple Rates, Future Taxable Income)** Nadal Inc. has two temporary differences at the end of 2016. The first difference stems from installment sales, and the second one results from the accrual of a loss contingency. Nadal's accounting department has developed a schedule of future taxable and deductible amounts related to these temporary differences as follows.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Taxable amounts	\$40,000	\$50,000	\$60,000	\$80,000
Deductible amounts		(15,000)	(19,000)	
	<u>\$40,000</u>	<u>\$35,000</u>	<u>\$41,000</u>	<u>\$80,000</u>

As of the beginning of 2016, the enacted tax rate is 34% for 2016 and 2017, and 38% for 2018–2021. At the beginning of 2016, the company had no deferred income taxes on its balance sheet. Taxable income for 2016 is \$500,000. Taxable income is expected in all future years.

**Instructions**

- (a) Prepare the journal entry to record income tax expense, deferred income taxes, and income taxes payable for 2016.
- (b) Indicate how deferred income taxes would be classified on the balance sheet at the end of 2016.

**E19-20 (L01,2,4) (Two Differences, One Rate, First Year)** The differences between the book basis and tax basis of the assets and liabilities of Castle Corporation at the end of 2016 are presented below.

	<u>Book Basis</u>	<u>Tax Basis</u>
Accounts receivable	\$50,000	\$-0-
Litigation liability	30,000	-0-

It is estimated that the litigation liability will be settled in 2017. The difference in accounts receivable will result in taxable amounts of \$30,000 in 2017 and \$20,000 in 2018. The company has taxable income of \$350,000 in 2016 and is expected to have taxable income in each of the following 2 years. Its enacted tax rate is 34% for all years. This is the company's first year of operations. The operating cycle of the business is 2 years.

**Instructions**

- (a) Prepare the journal entry to record income tax expense, deferred income taxes, and income taxes payable for 2016.
- (b) Indicate how deferred income taxes will be reported on the balance sheet at the end of 2016.

**E19-21 (L03) (Carryback and Carryforward of NOL, No Valuation Account, No Temporary Differences)** The pretax financial income (or loss) figures for Jenny Spangler Company are as follows.

2012	\$160,000
2013	250,000
2014	80,000
2015	(160,000)
2016	(380,000)
2017	120,000
2018	100,000

Pretax financial income (or loss) and taxable income (loss) were the same for all years involved. Assume a 45% tax rate for 2012 and 2013 and a 40% tax rate for the remaining years.

**Instructions**

Prepare the journal entries for the years 2014 to 2018 to record income tax expense and the effects of the net operating loss carrybacks and carryforwards assuming Jenny Spangler 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.)

**E19-22 (L03) (Two NOLs, No Temporary Differences, No Valuation Account, Entries and Income Statement)** Felicia Rashad Corporation has pretax financial income (or loss) equal to taxable income (or loss) from 2009 through 2017 as follows.