

Accountancy 422  
Supplemental Problem

In 2006 Rose Office Equipment began operations. The company manufactures and sells copying machines. Pretax financial income for 2006 is \$675,000. The tax rate for 2006 was 40%. However, during 2006, Congress cut taxes. Therefore the enacted tax rate for years after 2006 will be 35%.

Rose Office Equipment sells its copiers on the installment basis. For financial reporting purposes, the revenue is recognized when the equipment is sold. For tax purposes revenue is recognized when the installment payments are received. In 2006 the company recognized gross profit of \$2,250,000 for financial reporting purposes, and it recognized \$450,000 for tax purposes.

Rose Office Equipment guarantees the copying machines for two years. Warranty costs are recognized on the accrual basis for financial accounting purposes and when paid for tax purposes. Warranty expenses accrued in 2006 were \$430,000, but only \$130,000 of warranty costs were paid in 2006.

In addition, during 2006, \$90,000 of interest on municipal bonds was earned. The payment will not be received until 2001. Premiums in the amount of \$8,000 were paid on a life insurance policy for Rose's Chief Executive Officer. The beneficiary for this policy is Rose Office Equipment Company.

**Required:** Provide the journal entry for income taxes at year-end. For maximum credit, show all your calculations.