

Rose Office Equipment
 Deferred Taxes
 For the Year Ended 2006

Gross profit for financial accounting	\$ 2,250,000
Gross profit for tax accounting	\$ 450,000
Revenue accrued before taxed	<u>\$ 1,800,000</u>

Warranty expense for financial accounting	\$ 430,000
Warranty expense for tax accounting	\$ 130,000
Expense accrued before deducted	<u>\$ 300,000</u>

Enacted tax rate = 35%

<u>Accounting Event</u>	<u>Future Taxable Amount</u>	<u>Future Deductible Amount</u>	<u>Deferred Tax Liability</u>	<u>Deferred Tax Asset</u>	<u>Taxable Income</u>
Pretax income					\$ 675,000
<u>Noncurrent</u>					
None					
<u>Current</u>					
Installment method	\$ 1,800,000		\$ 630,000		\$ (1,800,000)
Warranties		\$ 300,000		\$ 105,000	\$ 300,000
Total current			<u>\$ 630,000</u>	<u>\$ 105,000</u>	
<u>Permanent Items</u>					
Municipal bond interest					\$ (90,000)
Insurance for executives					\$ 8,000
Taxable income					<u>\$ (907,000)</u>

Because there is negative taxable income, there will be an operating loss carryback or carryforward. Because this is Rose's first year in business, no carryback is available. Therefore there is a carryforward. The carryforward is a future deductible amount resulting in a deferred tax asset. We will assume that it will not be used until beyond 2007.

Operating loss carryforward	\$ 907,000
Enacted tax rate	35%
Noncurrent deferred tax asset	<u>\$ 317,450</u>

Journal entry

Provision for income taxes	\$	207,550	
Current deferred tax asset	\$	105,000	
Noncurrent deferred tax asset	\$	317,450	
Current Deferred tax liability			\$ 630,000
<i>To record income taxes</i>			