

FA Module 13 Tax expense with deferred taxes practice exam questions

(The attached PDF file has better formatting.)

A firm pays income taxes of 99 in 20X1 and of 80 in 20X2. The corporate tax rate is 20%.

The firm reports deferred tax assets and liabilities for December 31, 20X1, and December 31, 20X2, as:

<i>Deferred taxes at</i>	<i>December 31, 20X1</i>	<i>December 31, 20X2</i>
<i>Current tax asset</i>	15	26
<i>Current tax liability</i>	42	39
<i>Deferred tax asset</i>	57	64
<i>Deferred tax liability</i>	85	75

Question 13.1: Tax expense

What is the firm's tax expense in 20X2?

Answer 13.1: $80 - (26 - 15) + (39 - 42) - (64 - 57) + (75 - 85) = 49$

Taxes paid
– Δ Current tax asset
+ Δ Current tax liability
– Δ Deferred tax asset
+ Δ Deferred tax liability
= Tax expense