Tutorial 4 Questions

Chapter 13: Income taxes

Comprehensio[illegible]

1. **Provide five exa[illegible]s in the treatment of revenues and expenses under AASB and ITA[illegible]**

2. **What is a 'tax lo[illegible] accounted for?**

3. **List five examples of temporary differences that create deferred tax assets**

4. **Explain the movements that occur in deferred tax accounts due to revaluation of non-current assets.**

Application and analysis questions

1. **Calculation of current tax**

Griffith Ltd had its accounting profit before tax as $150 000 for the year ended 30 June 2024. The following items of revenue and expense were included in the accounting profit.

Donations (non-deductible)	$	10 000
Depreciation expense — equipment (20% p.a., straight-line)		20 000
Annual leave expense		5 000
Rent revenue		15 000

For tax purposes the following applied.

Depreciation rate — equipment		25%
Annual leave paid	$	7 500
Rent received	$	10 000
Income tax rate		30%

Required

a. **Calculate the current tax liability for the year ended 30 June 2024 for Griffith Ltd, and prepare the journal entry to recognise it.**

b. **Explain your treatment of annual leave expense and annual leave paid in your answer to requirement 1.**

(LO3 and LO4)

2. Calculation of current and deferred tax, and adjustment entry

Koona Ltd's acc[illegible]re tax for the year ended 30 June 2024 was $150 000. The compa[illegible]ents of financial position showed the following balances. The co[illegible]ssumed to be 30%.

	2023	2024
Assets		
Cash	$ 40 000	$ 50 000
Inventories	150 000	160 000
Accounts receivable	300 000	420 000
Allowance for doubtful debts	(15 000)	(21 500)
Prepaid insurance	20 000	15 000
Equipment	200 000	260 000
Accumulated depreciation — equipment	(100 000)	(146 000)
Buildings	400 000	400 000
Accumulated depreciation — buildings	(140 000)	(160 000)
Goodwill	40 000	40 000
Deferred tax asset	45 000	?
Liabilities		
Accounts payable	255 000	270 000
Accrued expenses payable	120 000	90 000
Mortgage loan	210 000	210 000
Warranty payable	70 000	50 000
Current tax liability	9 000	?
Deferred tax liability	12 000	?

Additional information

- **During the year ended 30 June 2024, Koona Ltd received a non-taxable royalty revenue of $20 000.**
- **Amounts received from sales, including those on credit terms, are taxed at the time the sale is made. Koona Ltd recognised $20 000 in bad debts expense during the year ended 30 June 2024.**
- **Insurance expense incurred during the year ended 30 June 2024 was $20 000. The amounts paid in cash for insurance are allowed to be claimed as deductions for tax purposes.**
- **The equipment is depreciated on a straight-line basis over 5 years for accounting purposes and over 4 years for taxation purposes. The equipment is not expected to have any residual value. The only movement in the equipment account during the year ended 30 June 2024 was a result of Koona Ltd acquiring a new equipment on 1 January 2024.**
- **The buildings are depreciated on a straight line basis over 20 years for accounting purposes and are not expected to have any residual value. Depreciation of buildings is**

not allowed to be claimed as a deduction for tax purposes. There is no movement in the Buildings account during the year ended 30 June 2024.

- During the year ended 30 June 2024, Koona Ltd paid accrued expenses of $210 000 and recognised $45 000 in warranty expense. These expenses are not deductible for tax purposes until th l.
- There are no oth differences between accounting and taxable profit.
- During the year 4, Koona Ltd paid the Australian Taxation Office the following ins tax:

1. 1 August 20
2. 1 November
3. 1 March 2024: $7 500
4. 1 May 2024: $8 000.

Required

1. Prepare the current tax worksheet and the journal entry to recognise current tax at 30 June 2024.
2. Prepare the deferred tax worksheet and journal entries to adjust deferred tax accounts.

(LO4 and LO5)