Income taxes: study and print

MODULE 4 / SIX TOPICS, ONE CONNECTED METHOD

Use the topic page to learn the reasoning, the map to choose a route and the worksheet to check the calculation. The four-page quick reference brings adjustment rules, tax bases, formulas and journal entries together.

Topic / printed guide pages	Resources to keep nearby
1. Current tax and profit reconciliation 162 - 165	Four-page quick reference; complete Kestrel case.
2. Tax bases and temporary differences 165 - 177	Tax-base decision map; worked/blank worksheet.
3. Deferred tax recognition and measurement 173 - 187,192	Recognition map; movements and journals.
4. Tax losses and recoverability 186 - 192	Three-page loss workbook and blank tracker.
5. Revaluations and tax allocation 194 - 199	Three-page revaluation/recovery guide with IAS 16 branches.
6. Tax reporting and complete workings 201 - 216	Reporting checklist; four-page Kestrel case.

Suggested working order

State tax rules. Reconcile profit. Find CA and TB. Classify differences. Test recognition. Measure closing deferred balances. Reconcile movements. Allocate to P/L, OCI or equity. Prepare journals and disclosures.

The saved Module 2 resource Tax expense to cash paid provides an additional bridge between tax expense, deferred movements and cash settlement.

PDFs use searchable text and vector diagrams; each resource also has downloadable page images. Blank worksheets deliberately include writing space. Print at actual size or fit to A 4.

Open all Accounting Ahead Module 4 resources

Historical study basis: October 2022 guide, including the issued 2021 IAS 12 amendment effective 2023 with early application permitted. No later Pillar Two rules or current tax law are substituted. All practice facts and calculations are original.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Primary sources: AASB 112 (June 2021 amendments); AASB 101 and AASB 116(December 2021).

Tax reconciliation quick reference

MODULE 4 / ADJUSTMENT RULES / 1 OF 4

Start with accounting profit before tax. Replace the accounting treatment with the tax treatment stated in the case. A rule below is conditional on those facts, not a universal statement of tax law.

Summary of reconciliation rules

Item type	Adjustment rule	Why
Expense: timing differs	ADD accounting expense; SUBTRACT allowable tax deduction.	Replace the amount already charged with the permitted deduction.
Revenue: timing differs	SUBTRACT accounting revenue; ADD assessable tax revenue.	Replace the income already recognised with the taxable amount.
Expense never deductible	ADD BACK the expense.	It reduced accounting profit but cannot reduce taxable profit.
Income exempt from tax	SUBTRACT the exempt income.	It increased accounting profit but is not assessable.

Taxable profit = accounting profit + net adjustments
Current tax = taxable profit x applicable tax rate.

Read the assumption, not just the account name

A fine or entertainment expense is added back only when the case establishes that it is non-deductible. Grants, dividends, provisions and prepaid costs also need their own stated tax treatment.

Original direction check

Accounting depreciation is $18,000; tax depreciation is $27,000. Add $18,000 and subtract $27,000: the net adjustment is **minus $9,000**. Warranty expense of $9,600 with deductible payments of $6,000 produces a **plus $3,600** adjustment.

Next: carrying amount versus tax base

The next page finds future tax consequences. It does not repeat the profit reconciliation. Identify the item as an asset or liability, compute TB, classify the difference, then apply recognition conditions.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Printed pp.162 - 174. AASB 112 (June 2021 amendments), paragraphs 5, 7 - 14 and 46. Guide-aligned assumed tax rules; not current tax advice.

Carrying amount versus tax base

MODULE 4 / CONDITIONAL LOOKUP TABLE / 2 OF 4

ITEM / STATED TAX ASSUMPTION	CARRYING AMOUNT	TAX BASE	TAXABLE: DTL ROUTE	DEDUCTIBLE: DTA ROUTE
Cash; no tax on recovering principal	Balance	Same as CA	None	None
Inventory; tax cost still deductible on sale	Cost less write-down	Remaining tax cost	If CA > TB	If CA < TB
Trade receivables; sales already taxed, allowance not yet deductible	Gross less allowance	Gross receivable	If CA > TB	If CA < TB
FX receivable; exchange movement taxed only on settlement	Remeasured balance	Tax value before untaxed FX	Gain: CA > TB	Loss: CA < TB
Interest receivable; taxable on receipt, no deduction	Accrued balance	0	CA > TB	-
Prepaid insurance / rent; fully deducted on payment	Unexpired balance	0	CA > TB	-
Depreciable asset; recovery taxable	Cost/revalued amount less accounting depreciation	Remaining tax deductions	CA > TB	CA < TB
Land; taxable sale gain	Recorded amount	Deductible sale cost	CA > TB	CA < TB
Patent; recovery taxable	Unamortised balance	Remaining tax deductions	CA > TB	CA < TB
Loan / payable; settlement has no tax consequence	Balance	Same as CA	None	None
Provision; wholly deductible on settlement	Provision balance	0	-	CA > TB
Advance revenue; fully taxed on receipt	Unearned balance	0	-	CA > TB
Accrued expense / interest; wholly deductible when paid	Accrued balance	0	-	CA > TB
Fine payable; never deductible	Unpaid balance	Same as CA	None	None

Blue = assets; gold = liabilities. Red/green identify the potential tax direction, not automatic recognition. DTA requires probable utilisation; exemptions can prevent recognition. If the stated tax assumption changes, recalculate TB. Patents and land do not automatically have TB zero or TB equal to CA.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Printed pp.168 - 177, 180 - 187, 194 - 199. AASB 112 (June 2021 amendments), paragraphs 7 - 10, 15, 24 and 51. CA = carrying amount; TB = tax base; DTA/DTL = deferred tax asset/liability.

Tax formulas and tax-base routes

MODULE 4 / FORMULA BANDS & FLOWCHART / 3 OF 4

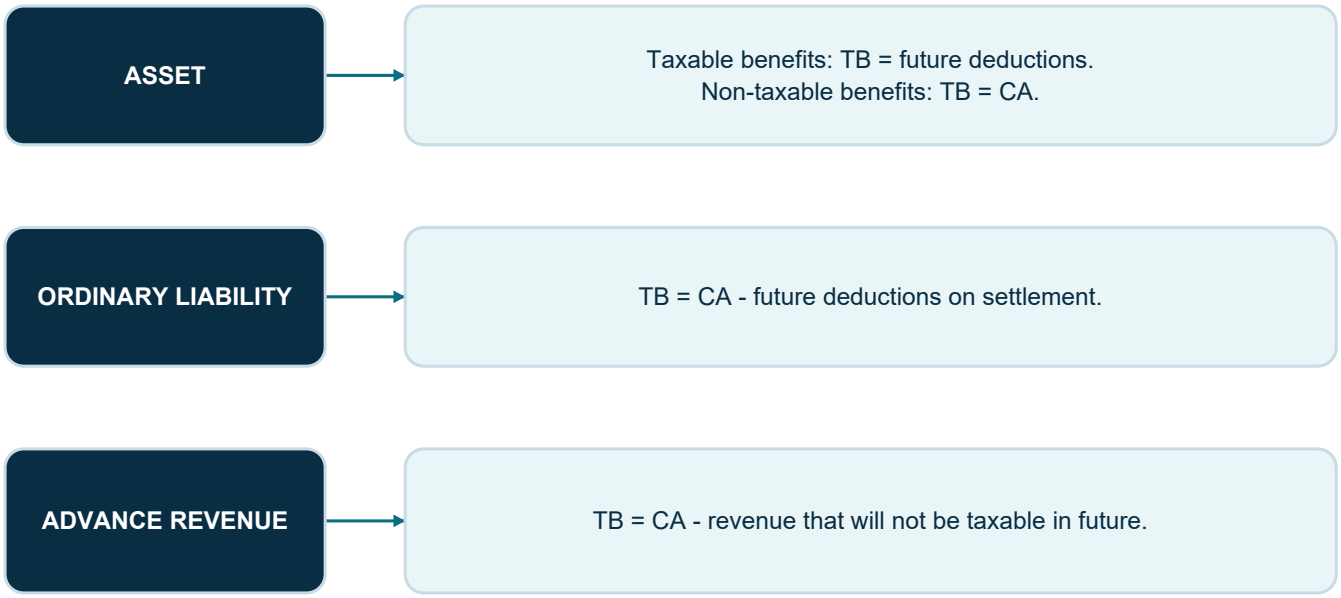
Current tax = taxable profit x applicable tax rate

P/L tax expense = current tax in P/L + deferred tax in P/L

Compare CA with TB; classify the difference before multiplying by the appropriate reversal-period rate.

Assets: CA > TB gives a taxable difference; CA < TB gives a deductible difference. **Liabilities:** the direction reverses.

Choose one tax-base route



General asset bridge, when useful

TB = CA + future deductions - future taxable amounts

Use only amounts tied to recovering this CA. The direct IAS 12 routes above are usually clearer.

Measure at an enacted/substantively enacted rate expected on recovery or settlement. **Do not discount deferred tax.** Apply recognition and allocation after calculating the difference.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Printed pp.168 - 177. AASB 112 (June 2021 amendments), paragraphs 7 - 10, 47 - 55. No source diagram is reproduced.

Tax journals: choose the right balance

MODULE 4 / JOURNAL REFERENCE / 4 OF 4

The following entries assume a profit-or-loss allocation. Use OCI or equity instead where required by the underlying transaction. Record the movement needed, not the whole closing balance again.

Event	Debit	Credit
Current tax charge	Current tax expense	Current tax payable
Pay tax instalment	Current tax payable	Cash
DTA increases	Deferred tax asset	Tax income
DTA used / reduced	Tax expense	Deferred tax asset
DTL increases	Tax expense	Deferred tax liability
DTL reverses	Deferred tax liability	Tax income
Qualifying carry-forward loss benefit	Deferred tax asset	Tax income (P/L)
Legally recoverable carry-back	Current tax asset	Tax income (P/L)

Loss recognition: guide terminology

The supplied sixth-edition guide labels the initial loss-DTA credit **current tax income** on printed page 190. Here the broader label **tax income (P/L)** keeps the benefit clear. The asset remains deferred; a future carry-forward is not an immediate cash refund.

Movement and cash bridges

Deferred expense in P/L = increase in DTL allocated to P/L - increase in DTA allocated to P/L

Cash tax paid = opening current payable + current charge - closing current payable

Only when there are no other current-tax movements; use a full reconciliation otherwise.

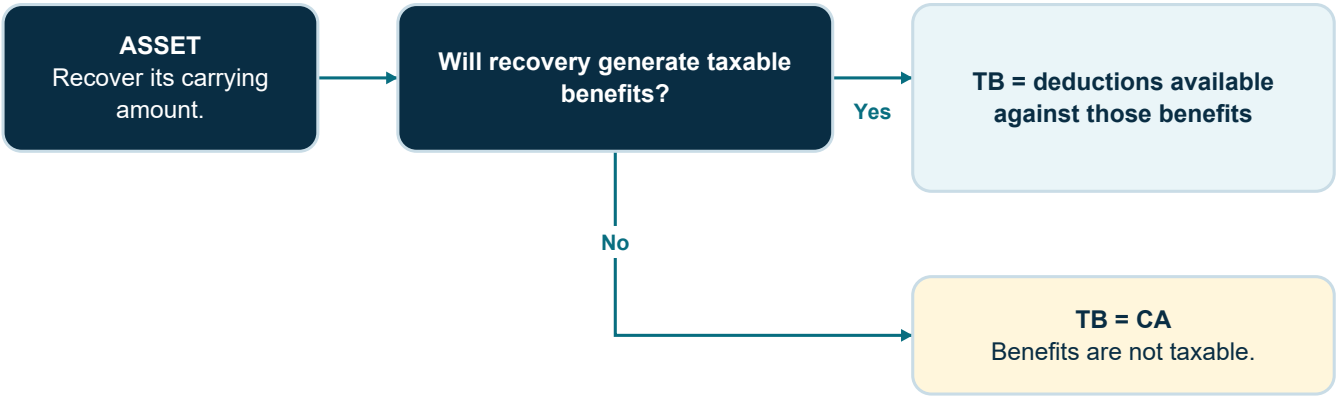
Review probable utilisation before recording a DTA. Identify unrecognised losses separately, and reverse a recognised asset when it is used. Do not net current and deferred balances simply because the journals can be combined.

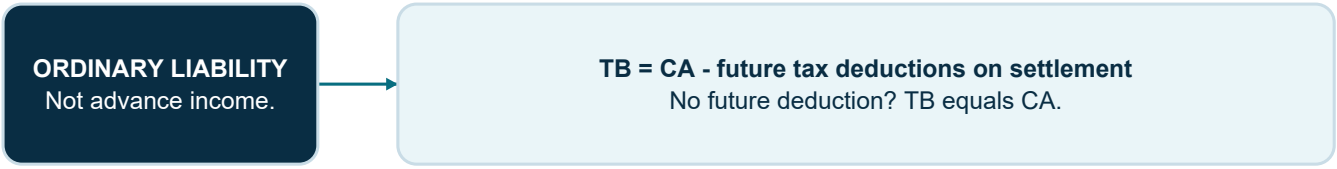
CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Printed pp.174 - 175, 180 - 192, 201 - 203. AASB 112 (June 2021 amendments), paragraphs 12 - 14, 24, 34 - 37, 58, 61A and 71 - 76.

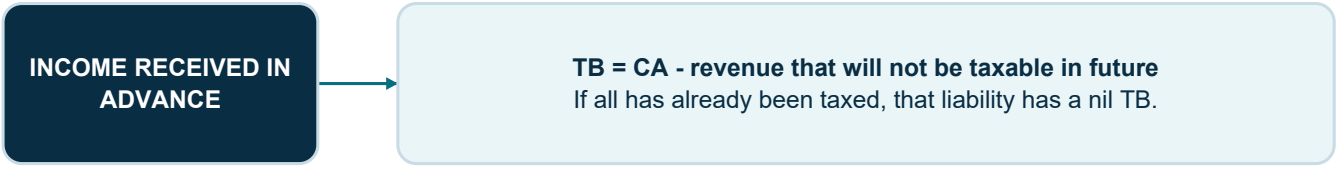
Find the tax base first

MODULE 4 / INCOME TAXES / CA = CARRYING AMOUNT; TB = TAX BASE

Choose the route for the item. Use the tax treatment stated in the facts; a label such as inventory, land or interest does not determine its tax base.







Comparison	Asset	Liability
CA > TB	Taxable difference: DTL route	Deductible difference: DTA route
CA < TB	Deductible difference: DTA route	Taxable difference: DTL route
CA = TB	No temporary difference	No temporary difference

Identification is not recognition. Apply the separate recognition tests before recording a deferred tax asset (DTA) or liability (DTL). An expensed item can also have a tax base even when its CA is nil.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide printed pages 168-173. AASB 112 (June 2021 amendments), paragraphs 5 and 7-11. Original flowchart; future deductions must relate to recovery or settlement of the item.

From the tax rule to the difference

MODULE 4 / ORIGINAL TAX-BASE EXAMPLES / 1 OF 2

Assume a 30% tax rate and probable recovery for the DTAs shown. No recognition exception applies. Tax rules in each row are explicit assumptions.

Item and tax assumption	CA	TB	Difference / tax effect
Machine: cost 96,000; accounting depreciation 24,000; tax depreciation 38,000	72,000	58,000	Taxable 14,000; DTL 4,200
Interest received later, taxable on receipt; no deduction	2,400	0	Taxable 2,400; DTL 720
Insurance prepaid, fully deducted on payment	5,000	0	Taxable 5,000; DTL 1,500
Inventory: tax cost 18,000; write-down not yet deductible	15,500	18,000	Deductible 2,500; DTA 750
Research expensed; full 12,600 deductible later	0	12,600	Deductible 12,600; DTA 3,780
Warranty fully deductible when settled	7,600	0	Deductible 7,600; DTA 2,280
Provision 8,000: only 5,000 deductible on settlement	8,000	3,000	Deductible 5,000; DTA 1,500
Advance receipts already fully taxed	7,000	0	Deductible 7,000; DTA 2,100
Fine payable, never deductible	2,400	2,400	No temporary difference

Receivable check: gross 36,000 less allowance 2,200 gives CA 33,800. If sales were already taxed and allowance is deductible only on write-off, TB 36,000 gives DTA 660. If tax allowed the allowance now, recalculate.

Do not aggregate these examples into one entity. Each row illustrates its own assumed facts. Recognition limits and exemptions remain separate tests.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.168 - 177. AASB 112 (June 2021 amendments), paragraphs 7 - 10, 15, 24 - 26.

Your deferred-tax worksheet

MODULE 4 / BLANK WORKING PAPER / 2 OF 2

Entity: _____ Date: _____ Rate(s): _____

Tax-rule assumptions / expected recovery: _____
_____

Item / asset or liability	CA	TB	Taxable difference	Deductible difference	DTA	DTL
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____
_____	____	____	____	____	____	____

Opening to closing: separate the destination

Movement	DTA	DTL
Opening balance	_____	_____
Profit or loss	_____	_____
OCI / direct equity	_____	_____
Acquisition / other	_____	_____
Closing balance	_____	_____

DTA evidence / unrecognised amounts: _____
_____

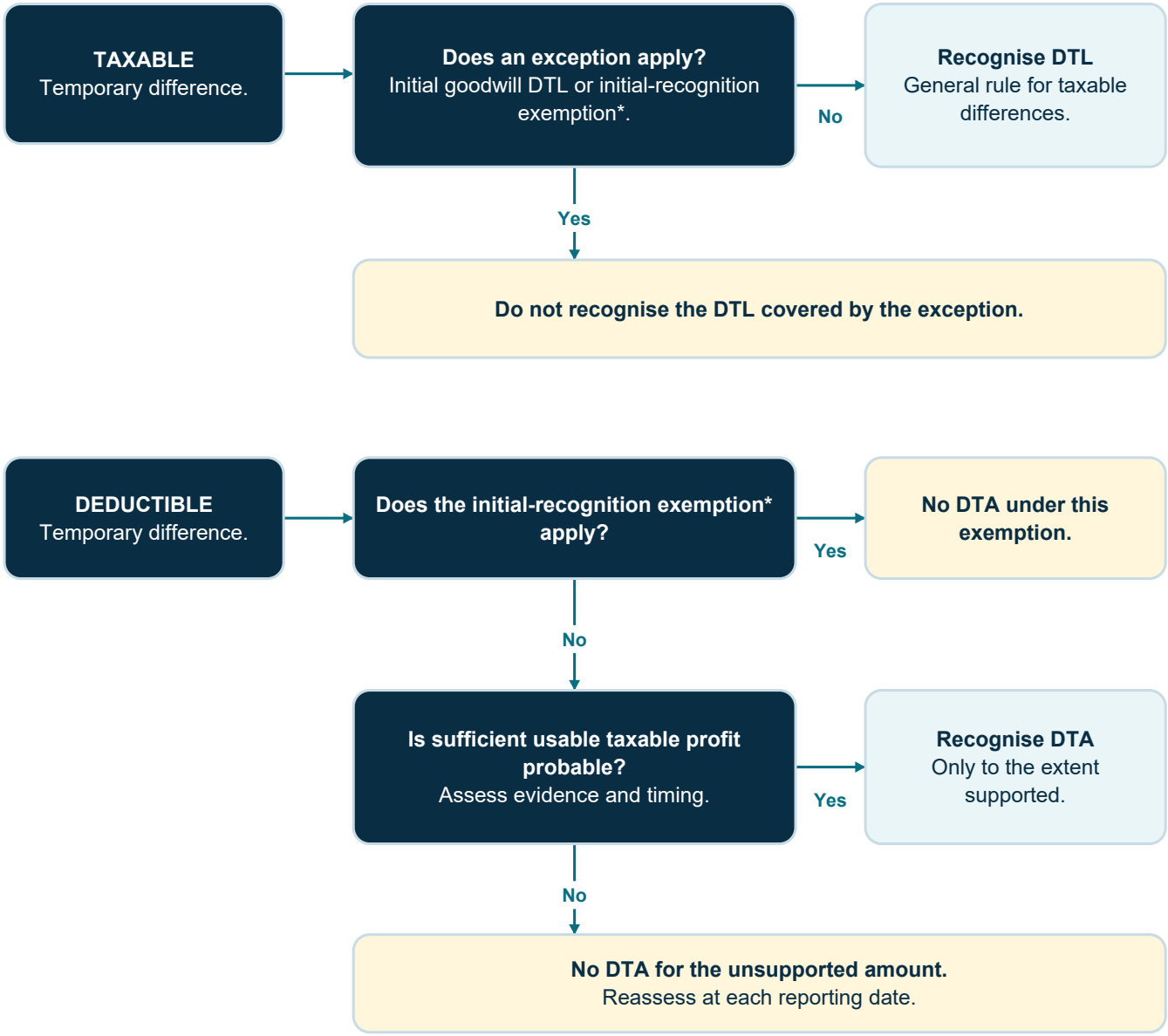
Journal check: total debits _____ = total credits _____.
Offset conditions met? _____ Disclosure needed? _____

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Original reusable worksheet. IAS 12 paragraphs 7 - 10, 24, 47 - 56, 58 and 61A. Blank lines are intentional writing space.

Does the difference become a balance?

MODULE 4 / RECOGNITION AFTER THE CA-TB COMPARISON

First identify whether the temporary difference is taxable or deductible. Follow the relevant branch, then measure any balance using the appropriate tax rate.



***All three conditions:** the transaction is not a business combination; it affects neither accounting nor taxable profit on initial recognition; and it does not create equal taxable and deductible temporary differences. Special investment rules require a separate assessment; they are outside this map.

Unused losses/credits: apply their separate probable-recovery assessment. They are not CA-TB temporary differences. Recognition is never automatic merely because a tax loss exists.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide printed pages 180-188. AASB 112 (June 2021 amendments), paragraphs 15, 22, 24, 27-37 and 98J; AASB 2021-5 announcement. The guide includes the third exemption condition issued in 2021, effective from 1 January 2023 with early application permitted. This is guide-aligned historical study material.

A difference originates, then reverses

MODULE 4 / JUNIPER SERVICES / 1 OF 3

Original case: each year has 70,000 profit before an 8,400 obligation. The obligation is expensed in Year 1 and paid in Year 2, when fully deductible. DTA recognition is supported. Rate 30%; no other differences or tax destinations.

Measure	Year 1	Year 2
Accounting profit	61,600	70,000
Taxable profit	70,000	61,600
Current tax	21,000	18,480
Closing provision	8,400	0
Closing DTA	2,520	0
Deferred expense / (income)	(2,520)	2,520
Total tax expense	18,480	21,000

Event	Debit	Credit
Year 1 obligation	Expense 8,400	Provision 8,400
Year 1 current tax	Current expense 21,000	Tax payable 21,000
Year 1 DTA	DTA 2,520	Tax income 2,520
Year 2 settlement	Provision 8,400	Cash 8,400
Year 2 current tax	Current expense 18,480	Tax payable 18,480
Year 2 DTA reversal	Deferred expense 2,520	DTA 2,520

Both years: total accounting profit 131,600; total tax expense 39,480. Total current tax is also 39,480. Timing shifts the charge between periods without creating a second deduction.

Closing is not movement. A DTL increasing 4,500 to 7,200 requires an additional 2,700 credit, not another 7,200 credit.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.173 - 187. AASB 112 (June 2021 amendments), paragraphs 24, 47 - 56 and 58.

Recognise, measure and allocate

MODULE 4 / THREE SEPARATE CHECKS / 2 OF 3

1. Recognition can limit the asset

Deductible difference 22,000; only 15,000 of utilisation is probable. Rate 30%. Recognised DTA =4,500; unrecognised potential benefit =2,100. Do not treat the difference as zero merely because part of the benefit is unrecognised.

2. Rate changes remeasure the balance

Taxable difference 24,000. Existing DTL 7,200 at 30%; enacted reversal-period rate becomes 28%. Required DTL =6,720. If wholly related to P/L, Dr DTL 480; Cr deferred tax income 480. A proposed but unenacted rate is not automatically used.

3. Profit or loss is not every movement

Movement	P/L effect under stated facts
DTL +4,140; DTA +2,640, both wholly P/L	Deferred expense 1,500.
DTL +18,000 solely from an OCI revaluation	OCI tax 18,000; no P/L expense from that increment.
DTA reduced 7,800 to 5,100 for weaker profit evidence, wholly P/L	Tax expense 2,700; no cash payment.

No discounting of deferred tax.
Use the expected reversal-period rate enacted or substantively enacted at reporting date; reflect the expected recovery or settlement route.

Initial-recognition exemption requires all three conditions in the guide: non-business-combination transaction, neither profit affected, and no equal taxable/deductible differences. The initial-goodwill DTL exception is separate. Do not change tax base to hide an exempt difference.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.175 - 187,192. AASB 112 (June 2021 amendments), paragraphs 15,22,24,37,47 - 56,58,61A. Guide includes issued 2021 amendment effective 2023; earlier application permitted.

Exchange differences and account direction

Assume exchange movements enter accounting profit now but are taxed or deducted only on settlement. A 30% rate applies; recognition is supported. These are separate examples, not one entity.

Item / movement	CA	TB	Deferred consequence
Receivable: tax value 42,000; unrealised gain 3,000	45,000	42,000	Taxable 3,000; DTL 900
Payable: tax value 29,000; unrealised loss 2,000 deductible on settlement	31,000	29,000	Deductible 2,000; DTA 600
Alternative payable: tax value 29,000; unrealised gain 2,000 taxable on settlement	27,000	29,000	Taxable 2,000; DTL 600

The original tax value is appropriate only because the case defers taxation of exchange movements. If the unrealised movement is already taxed or deductible, recalculate TB.

Debit and credit: keep the balance type clear

Account	Increase	Decrease / reversal
Deferred tax asset	Debit	Credit
Deferred tax liability	Credit	Debit
Tax expense	Debit	Credit adjustment
Tax payable	Credit charge	Debit payment

Original DTA T-account: opening debit 300 plus new debit 360 = closing debit 660. A written T-account may place 660 on the credit side as balance carried down to make the columns equal. The next-period balance brought down is still a DEBIT asset; no reversal journal occurred.

> DTA check: opening 300 + increase 360 - use 0 = closing 660.
> Do not post the balance-carried-down figure as a new transaction.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.168 - 177; supplementary debit-credit aid. AASB 112 (June 2021 amendments), paragraphs 7 - 10,15,24. All FX facts and figures are original.

Recognise only the supported benefit

MODULE 4 / ARDEN DESIGN / 1 OF 3

Original case: tax loss 42,000; no carry-back; rate 30%. Initial evidence supports only 26,000 before expiry. At Year 2 year-end, NEW evidence supports 23,000 of further taxable profit before expiry, after 19,000 has already been earned. No other differences. Later accounting profit equals taxable profit before loss use. Allocate recovery to unrecognised losses first, following the guide's analytical convention.

Loss-year analysis	Loss amount	Tax benefit
Supported / recognised	26,000	7,800 DTA
Unsupported / unrecognised	16,000	4,800 potential benefit
Total loss	42,000	12,600 potential benefit

Entry: Dr DTA 7,800; Cr tax income(P/L)7,800. There is no current tax receivable. The asset is a future benefit subject to the relevant expiry, entity and income-type restrictions.

Recovery	Year 2	Year 3
Profit before loss use	19,000	31,000
Previously unrecognised losses used	16,000	0
Recognised losses used	3,000	23,000
Taxable profit after losses	0	8,000
Current tax payable	0	2,400
DTA reversal / tax expense	900	6,900
Closing DTA	6,900	0
Total P/L tax expense	900	9,300

Year 2 recognised DTA reversal: Dr tax expense 900; Cr DTA 900. Year 3: Dr current tax expense 2,400; Cr tax payable 2,400; Dr deferred tax expense 6,900; Cr DTA 6,900.

Guide terminology

Printed page 190 calls the initial loss-DTA credit "current tax income". We use "tax income(P/L)" here; the asset remains deferred. The unrecognised-first allocation is an explanatory convention, not a tax-law ordering rule.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.186 - 192. AASB 112 (June 2021 amendments), paragraphs 34 - 37,56,80(e)-(g). All remaining DTA utilisation stays probable in this case.

What changes the recognition answer?

MODULE 4 / LOSS EVIDENCE & REASSESSMENT / 2 OF 3

1. **Identify the legal loss or credit**
   Check eligible entity, income category, expiry and carry-back rights.

2. **Schedule suitable taxable differences**
   Use compatible reversals once; do not double-count their profit.

3. **Test other future taxable profit**
   Recent losses require convincing supporting evidence.

4. **Consider available planning opportunities**
   Only realistic, legally available actions count.

5. **Recognise the supported amount**
   Track unrecognised benefits and reassess each reporting date.

Separate original example	Accounting outcome
Loss 25,000 initially unsupported; later evidence supports 18,000 at 30%	Recognise DTA 5,400 when evidence changes. Do not backdate.
DTA 7,800 now supported by only 17,000 at 30%	Reduce to 5,100: Dr tax expense 2,700; Cr DTA 2,700, if P/L.
Prior-period tax legally recoverable through carry-back 10,500	Current tax asset 10,500; tax income 10,500. Not a carry-forward DTA.
Unused tax credit 3,000 qualifies for full recognition	Benefit is 3,000, not 3,000 x 30%. Check the credit's own rules.

A tax loss does not guarantee a refund. Sufficient compatible taxable profit must be probable for a carry-forward DTA. Avoid using the same forecast capacity for losses and deductible temporary differences twice.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.186 - 192. AASB 112 (June 2021 amendments), paragraphs 13 - 14,27 - 37,56,81(e),82.

Your loss-recoupment tracker

MODULE 4 / BLANK THREE-PERIOD WORKING / 3 OF 3

Entity: _____ Rate: _____ Expiry / restrictions: _____
Evidence of probable use: _____

Working line	Period 1	Period 2	Period 3
Opening unused tax losses	_____	_____	_____
Opening unrecognised loss portion	_____	_____	_____
New losses incurred	_____	_____	_____
Profit before loss utilisation	_____	_____	_____
Losses used: unrecognised benefit	_____	_____	_____
Losses used: recognised benefit	_____	_____	_____
Expired / otherwise lost losses	_____	_____	_____
Closing unused losses	_____	_____	_____
Closing unrecognised loss portion	_____	_____	_____
Closing recognised loss portion	_____	_____	_____
Closing recognised DTA	_____	_____	_____
Current tax payable	_____	_____	_____
DTA reversal / new recognition	_____	_____	_____
Other remeasurement	_____	_____	_____
Total P/L tax expense / (income)	_____	_____	_____

Control checks

Opening losses + new losses - utilised - expired = closing losses.
Recognised DTA must agree to supported remaining benefit at the relevant rate.
DTA movement must reconcile opening to closing and match its tax destination.

Journal / evidence notes: _____
_____
_____

The sequence used for analytical allocation must not override the tax law's eligibility, expiry or ordering rules.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Original blank template; IAS 12 paragraphs 34 - 37 and 56. Blank lines are intentional writing space.

Separate the old DTL from the new gain

MODULE 4 / CEDAR WORKS / 1 OF 3

Original case: depreciable asset CA 160,000; TB 130,000; rate 30%. Revalue to 220,000. Tax base unchanged; no earlier P/L revaluation loss. Recover through use. All the new gain is OCI.

Measure	Before revaluation	After revaluation
Carrying amount	160,000	220,000
Tax base	130,000	130,000
Taxable difference	30,000	90,000
DTL at 30%	9,000	27,000

Incremental DTL =27,000 -9,000 =18,000. Gross revaluation 60,000; tax 18,000; net OCI 42,000. Charging the entire 27,000 to OCI would ignore the existing DTL.

Entry	Debit	Credit
Revalue asset	Asset 60,000	OCI revaluation gain 60,000
Tax on revaluation	OCI tax 18,000	DTL 18,000

Next year: depreciation creates a movement

Remaining life 5 years; no residual value; accounting depreciation 44,000; tax deduction 26,000. Closing CA 176,000 and TB 104,000 give DTL 21,600. Reverse 5,400 through P/L tax income under these assumptions.

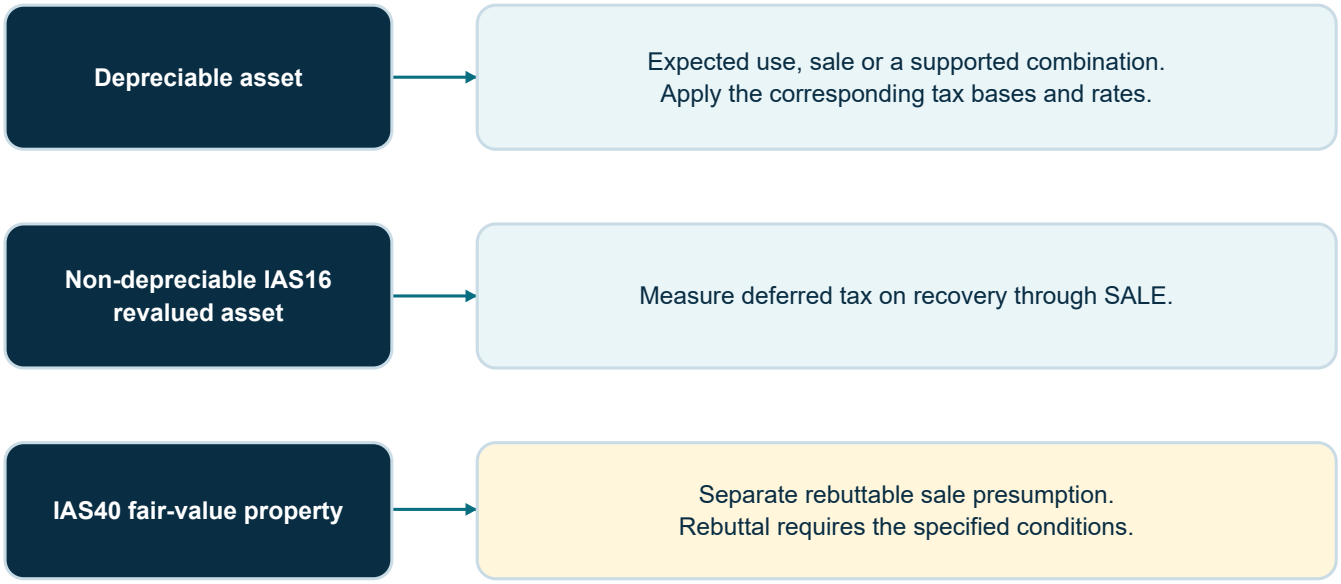
Extra accounting depreciation caused by revaluation:44,000 -32,000 =12,000. Its tax effect is 3,600, so an elected surplus-to-retained-earnings transfer is 8,400 after tax. This transfer is within equity, not through P/L.

The 5,400 total DTL reversal includes the original pre-revaluation difference; it is not identical to the 3,600 tax effect of the extra depreciation.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.194 - 199. AASB 112 (June 2021 amendments), paragraphs 20,51,58,61A,64; AASB 116 (December 2021),39 - 41.

Which recovery route applies?

MODULE 4 / USE, SALE AND DIFFERENT RATES / 2 OF 3



Independent original fact pattern	Calculation
Asset CA 84,000, use deductions 56,000, rate 30%	DTL(84,000 - 56,000)x 30%=8,400
Alternative sale regime:CA 84,000, sale deduction 70,000, rate 20%	DTL(84,000 - 70,000)x 20%=2,800
Taxable use recovery 30,000 at 30% plus taxable sale recovery 18,000 at 20%	DTL 9,000 + 3,600 = 12,600
Revalued land CA 180,000; sale tax cost 120,000; rate 25%	DTL 60,000 x 25%=15,000

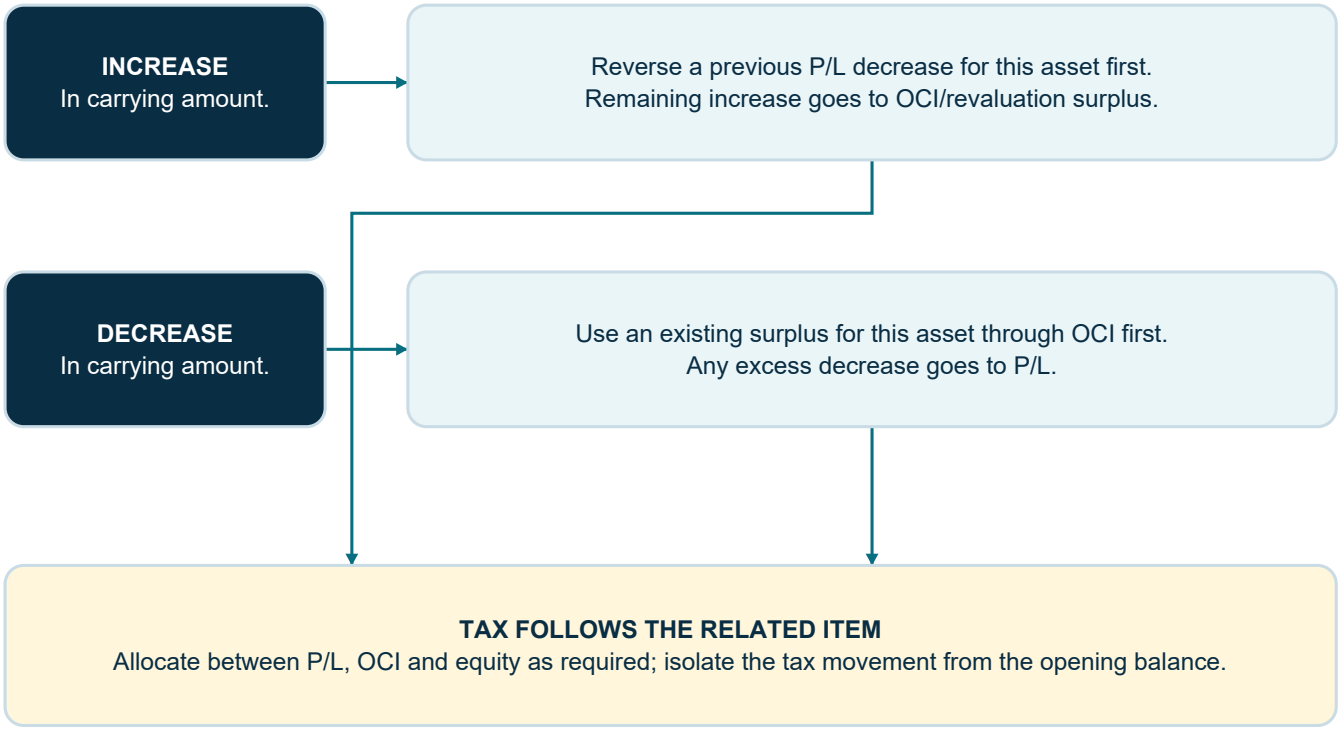
Choose the expected route, not the lower answer. A sale regime can tax depreciation recovery even if another gain component is exempt. Do not double-count deductions when splitting recovery components.

The IAS 40 branch is supplementary standard guidance. Its rebuttal requires a depreciable property held in a business model consuming substantially all economic benefits over time, rather than sale. It is not the IAS 16 land rule.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.196 - 199. AASB 112 (June 2021 amendments), paragraphs 51 - 51D. All tax treatments above are hypothetical case assumptions.

Where does a revaluation go?

MODULE 4 / IAS 16 BRANCHES & TAX ALLOCATION / 3 OF 3



Original increase example: an asset rises 24,000; 12,000 reverses a prior P/L decrease. Assuming a 30% incremental tax consequence on each part, allocate tax 3,600 to P/L and 3,600 to OCI. Net gain is 8,400 in each location.

Original decrease example: carrying amount falls 25,000 and available pre-tax revaluation surplus for this asset is 9,000. Allocate gross decrease 9,000 to OCI and 16,000 to P/L; assess each tax consequence separately. Recognition of a resulting DTA still needs support.

> Cost-model CA = cost - accumulated depreciation - accumulated impairment
> Revaluation-model CA = revalued amount - subsequent depreciation - subsequent impairment

Straight-line annual depreciation = (cost - residual value) / useful life.
After revaluation = (revalued amount - residual value) / remaining useful life.
A transfer of realised surplus directly to retained earnings does not recycle OCI through P/L.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. IAS 16 supplementary note structure, rebuilt as original branches. AASB 116 (December 2021),paragraphs 30 - 31,39 - 41; AASB 112 (June 2021 amendments),58,61A-64.

Finish the tax answer

MODULE 4 / PRESENTATION & DISCLOSURE

Area	Decision / disclosure check
Current versus deferred	Show separately from other balances. Where current/non-current presentation is used, deferred tax is non-current.
Current tax offset	Legally enforceable right AND intention to settle net or realise/settle simultaneously.
Deferred tax offset	Legal current-tax offset right AND same authority; same taxable entity, or the specified future-period net/simultaneous settlement intention for different entities.
Tax expense components	Current and deferred components, prior-period adjustments, rate effects and other relevant components.
Tax reconciliation	Explain total P/L tax expense versus accounting profit at the applicable rate, in amount or rate form. Explain rate changes.
Temporary differences	By type, disclose recognised balances and relevant P/L deferred tax where not apparent from balance changes.
Unused/unrecognised benefits	Amounts of deductible differences, losses and credits for which no DTA is recognised; expiry where required.
DTA despite recent losses	Where IAS 12 paragraph 82 applies, disclose the DTA amount and evidence supporting recognition.
Outside P/L	Identify tax in OCI and direct equity, and acquisition effects where applicable.

Original Kestrel cross-check

> 186,400 x 30% =55,920
> + non-deductible fine tax 720 - exempt-income tax 1,440
> = P/L tax expense 55,200 = current 53,700 + deferred 1,500

Effective rate =55,200 / 186,400 =29.61%. If offset criteria are met, DTL 9,420 less DTA 5,040 gives net deferred liability 4,380. This is separate from current payable 16,700.

These are study checks, not a complete disclosure checklist for every entity. Respond to actual facts such as business combinations, discontinued operations and multiple jurisdictions.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide pp.201 - 209. AASB 112 (June 2021 amendments),71 - 82; AASB 101(December 2021),54(n)-(o),56,82(d).

Kestrel Studio: read the facts first

MODULE 4 / ORIGINAL COMPLETE CASE / 1 OF 4

Profit before tax 186,400. Flat 30% rate. All DTAs satisfy recognition. No OCI, equity, acquisition, rate-change or other tax movements. Amounts are dollars. Tax rules below are case assumptions; they are not current Australian law.

Item included in profit	Accounting / tax facts
Fine 2,400	Never deductible.
Income 4,800	Exempt from tax.
Equipment depreciation 18,000	Tax depreciation 27,000. Equipment cost 120,000; opening accumulated accounting/tax depreciation 30,000 / 45,000.
Warranty expense 9,600	Claims 6,000 paid and deductible. Opening provision 4,000.
Credit-loss expense 2,000	Qualifying write-offs 800 deductible; opening allowance 1,000. Closing gross receivables 36,000; sales already taxed.
Insurance expense 6,000	Cash premium 9,000 fully deductible. Opening prepayment 2,000.
Interest income 5,000	Cash 3,200 taxable when received; opening receivable 600. No future deduction against collection.
Service revenue 8,000	Cash 12,000 taxable on receipt; opening unearned revenue 3,000.
Current-tax settlement	Opening tax payable 11,000; tax paid 48,000.

Try it before reading the answer

1. Reconcile accounting to taxable profit and compute current tax.
2. Derive closing CA/TB and recognised deferred balances.
3. Reconcile movements and prepare balanced tax journals.
4. Check tax expense, cash paid, payable and effective rate.

Opening deferred balances can be derived from the opening information: equipment DTL 4,500; insurance DTL 600; interest DTL 180; allowance DTA 300; warranty DTA 1,200; advance-revenue DTA 900.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Guide Part E(pp.210 - 216) supplies scope only. This case, names, facts, dataset and all workings are new.

Step 1: current tax and closing balances

MODULE 4 / KESTREL ANSWER / 2 OF 4

Profit reconciliation	Adjustment	Running total
Profit before tax		186,400
Fine non-deductible	+2,400	188,800
Exempt income	-4,800	184,000
Depreciation:18,000 - 27,000	-9,000	175,000
Warranty:9,600 - 6,000	+3,600	178,600
Credit losses:2,000 - 800	+1,200	179,800
Insurance:6,000 - 9,000	-3,000	176,800
Interest:-5,000 + 3,200	-1,800	175,000
Advance revenue:-8,000 + 12,000	+4,000	179,000

Current tax =179,000 x 30% =53,700. Dr current tax expense 53,700; Cr current tax payable 53,700.

Close the underlying balances independently

Balance	Roll-forward	Closing
Warranty provision	4,000 + 9,600 - 6,000	7,600
Loss allowance	1,000 + 2,000 - 800	2,200
Insurance prepaid	2,000 + 9,000 - 6,000	5,000
Interest receivable	600 + 5,000 - 3,200	2,400
Unearned service revenue	3,000 + 12,000 - 8,000	7,000

Equipment CA =120,000 - 30,000 - 18,000 =72,000.
Equipment TB =120,000 - 45,000 - 27,000 =48,000.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Original workings. AASB 112 (June 2021 amendments),7 - 14,46.

Step 2: deferred worksheet and movement

MODULE 4 / KESTREL ANSWER / 3 OF 4

Closing item	CA	TB	DTA	DTL
Equipment	72,000	48,000	-	7,200
Net receivables	33,800	36,000	660	-
Insurance prepaid	5,000	0	-	1,500
Interest receivable	2,400	0	-	720
Warranty provision	7,600	0	2,280	-
Unearned revenue	7,000	0	2,100	-
Totals			5,040	9,420

Each nil TB follows the tax assumptions on page 1. Receivable TB is gross because the revenue was taxed while the allowance is not yet deductible.

Balance	Opening	Closing	P/L expense effect
Equipment DTL	4,500	7,200	+2,700
Insurance DTL	600	1,500	+900
Interest DTL	180	720	+540
Allowance DTA	300	660	-360
Warranty DTA	1,200	2,280	-1,080
Advance-revenue DTA	900	2,100	-1,200
Net deferred expense			1,500

DTLs rise 5,280 to 9,420: movement 4,140.
DTAs rise 2,400 to 5,040: movement 2,640.
Combined entry: Dr DTA 2,640; Dr deferred tax expense 1,500; Cr DTL 4,140.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. Original calculations. AASB 112 (June 2021 amendments),15,24,47 - 56,58.

Step 3: journals, statements and checks

MODULE 4 / KESTREL ANSWER / 4 OF 4

Journal	Debit	Credit
Current tax	Current tax expense 53,700	Current tax payable 53,700
Deferred movement	DTA 2,640; deferred expense 1,500	DTL 4,140
Tax paid	Current tax payable 48,000	Cash 48,000

P/L tax expense =53,700 + 1,500 =55,200
Profit after tax =186,400 - 55,200 =131,200

Closing current payable =11,000 + 53,700 - 48,000 =16,700

Tax-rate reconciliation	Amount
Accounting profit 186,400 x 30%	55,920
Non-deductible fine 2,400 x 30%	+720
Exempt income 4,800 x 30%	-1,440
Total tax expense	55,200
Effective rate 55,200 / 186,400	29.61%

What would appear in the statement?

Current tax payable 16,700. Deferred balances: DTA 5,040 and DTL 9,420, presented gross unless the offset criteria are met. If met, net deferred liability 4,380. Deferred tax is non-current in a current/non-current statement.

Timing differences cancel from this effective-rate reconciliation because their full deferred effects are recognised at the same 30% rate and all belong to P/L. Different facts can produce a different reconciliation.

Check that every journal balances and each closing figure agrees with its underlying roll-forward. Explain differences rather than inserting an unexplained balancing amount.

CPA Australia FR study guide, sixth edition (October 2022), Module 4. Original Accounting Ahead examples and workings. AASB 112 (June 2021 amendments),71 - 82; AASB 101(December 2021),56. Educational example; all amounts independently checked.