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.