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.

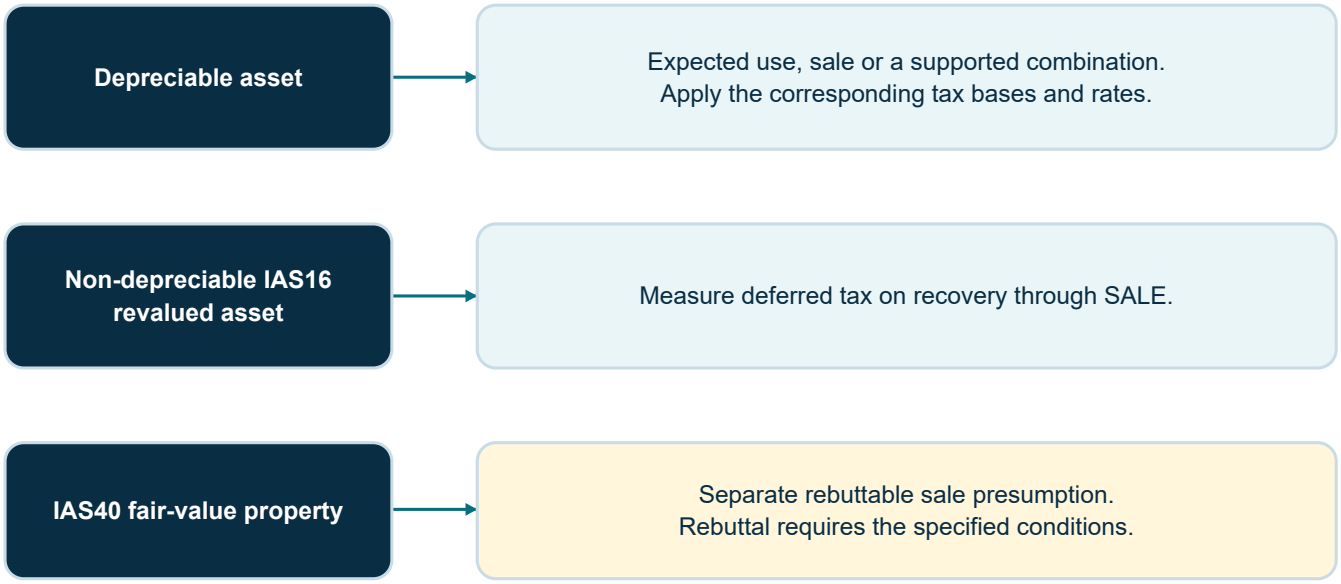
Extra accounting depreciation caused by revaluation:44,000 -32,000 =12,000. Its tax effect is 3,600, so an elected surplus-to-retained-earnings transfer is 8,400 after tax. This transfer is within equity, not through P/L.

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

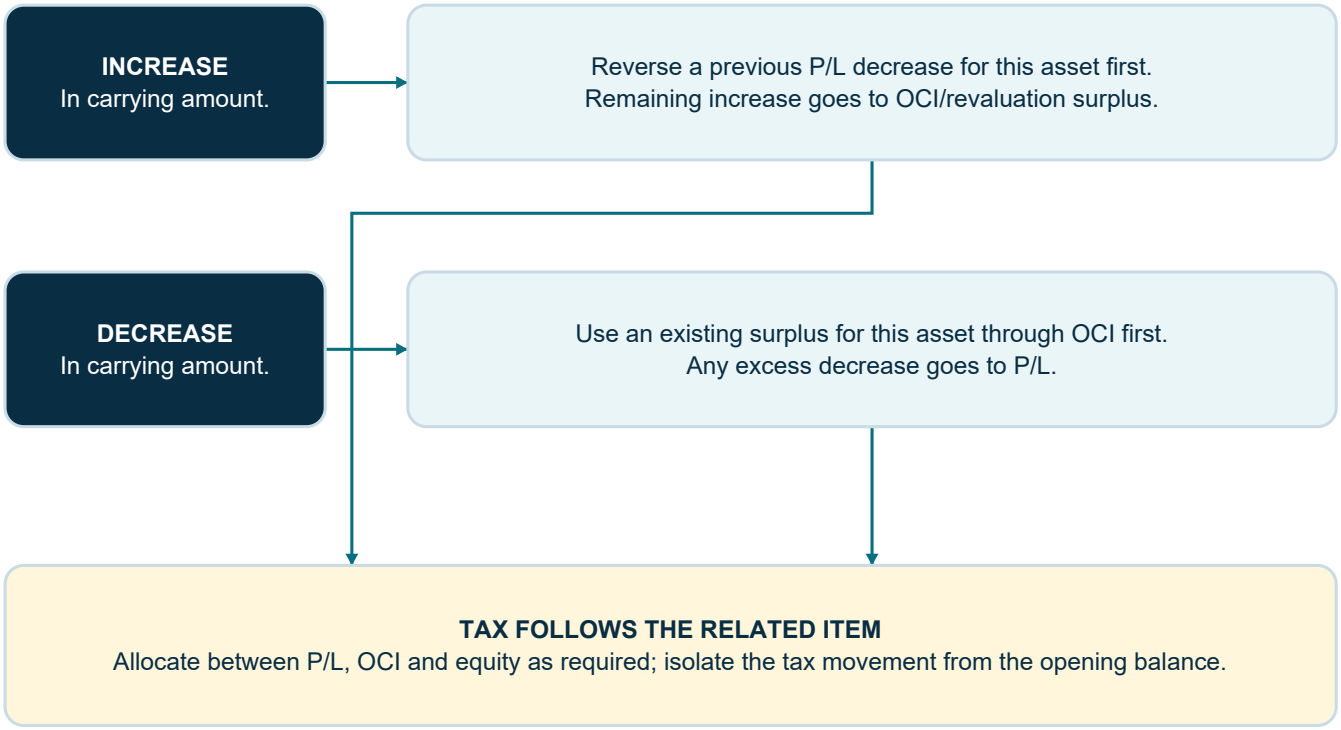
Choose the expected route, not the lower answer. A sale regime can tax depreciation recovery even if another gain component is exempt. Do not double-count deductions when splitting recovery components.

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.