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The IFRS for SMEs

Quiz and Discussion
Section 29 *Income Tax*
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Day 3 11:30 to 12:00

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Question 1: Entity has tax loss 30,000 in 20X8 and taxable profit 20,000 in 20X7. Tax rate 40%. Tax loss can be carried back one prior year only (no carryforward). Correct entry?

- a. Debit Current tax asset 8,000
Credit Current tax income 8,000
- b. Debit Current tax asset 12,000
Credit Current tax income 12,000
- c. Debit Current tax expense 8,000
Credit Current tax liability 8,000
- d. Debit Current tax expense 12,000
Credit Current tax liability 12,000

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Question 2: What is the correct sequence of the following steps in accounting for deferred taxes?

1. Compute temporary difference and unused tax losses and tax credits
2. Determine tax basis at reporting date
3. Recognise deferred tax assets and liabilities
4. Identify which assets and liabilities will affect taxable profit if recovered or settled for their carrying amount.

- a. 1-2-3-4
- b. 4-2-1-3
- c. 2-1-4-3
- d. 4-1-2-3

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Ques. 3: At 31/12/X2 entity has interest receivable 4,000 that will be taxable in X3 when received in cash. Tax rate 20% first 500,000 income and 30% on excess. Taxable profit in X2 = 450,000. Estimated taxable profit X3 = 550,000. What is deferred tax liability 31/12/X2 for receivable?

- a. 1,200
- b. 1,000
- c. 940
- d. 836
- e. 800

Hint: Measurement is based on estimated effective tax rate for 20X3.

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Question 4: Tax rate is 30% on operating profit, 0% on capital gains. In 20X1 entity has pre-tax operating profit 50,000 and gain on sale of an asset of 5,000. Entity believes gain is capital gain, but small possibility (estimated 20%) that tax authority says it is operating. What is current tax liability at 31/12/X1?

- a. 16,500
- b. 16,200
- c. 15,300
- d. 15,000

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Ques. 5: Which is the correct use of discounting in measuring income tax assets and liabilities?

Choice	Current tax assets and liabilities	Deferred tax assets and liabilities
a	Discounted	Not Discounted
b	Not Discounted	Discounted
c	Discounted	Discounted
d	Not Discounted	Not Discounted



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Question 6: Tax rate is 20% on undistributed profit and 30% (extra 10%) on distributed profit. In 20X1 taxable profit = 100,000. Also temporary difference of 30,000 arose in 20X1 that will increase future taxable profits. At 31/12/20X1 entity should recognise...?

choices on next slide...



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Question 6: Choices:

	Current tax liability and expense	Deferred tax liability and expense
Choice a	20,000	6,000
Choice b	20,000	9,000
Choice c	22,000	6,000
Choice d	25,000	7,500
Choice e	30,000	9,000



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Question 7: Tax year ends 30 June. At 31 March entity must pay provisional tax based on prior year's tax. Tax rate is 30%. For y/e 30/6/X4 taxable profit was 50,000, and tax paid was 15,000. Based on this, on 31/3/X5 entity paid 15,000 toward y/e 30/6/X5. Actual taxable profit for y/e 30/6/X5 = 40,000.

- What is tax expense for y/e 30/6/X5?
- What is current tax asset at 30/6/X5?
- What journal entry should be made at 30/6/X5?

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Question 7:

Tax expense y/e 30/6/20X5: $30\% \times 40,000 = 12,000$
 Current tax asset at 30/6/20X5: 15,000 paid minus 12,000 owed. Tax asset is a receivable from the tax authority.

Journal entry at 30/6/X5:

Debit current tax asset	3,000
Credit tax expense*	3,000

*Assumes that at 31/3/X5 the debit for the 15,000 payment was to 'Tax Expense'.



Questions or comments?

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