

Activity 1

- 1, Explain why there are differences between income tax expense and income tax payable?

- 2, Explain why there are differences between permanent differences and temporary differences?

- 3, Identify accounts with the two categories, permanent differences and temporary differences

Activity 2

The exercise from Week 7 Argentina Ltd, with items changed. Exam question from 2nd semester 2013 with figures adjusted

One year after the commencement of business, Pistachio Ltd determined its accounting profit before tax for the year ended 30 June 2016 to be \$256,700. Included in this profit are the following items:

	\$
Entertainment expense	1,700
Depreciation expense – buildings	50,000
Depreciation expense – plant	18,750
Doubtful debt expense	4,100
Annual leave expense	46,000
Warranty expense	17,000
Advertising expense	4,200

The company's Balance Sheet as at 30 June 2016 showed the following assets and liabilities:

	\$	\$
Assets		
Cash		2,500
Accounts receivable	18,000	
<i>Less</i> allowance for doubtful debts	600	17,400
Inventory		31,600
Prepaid advertising		4,500
Land		175,000
Buildings	1,000,000	
<i>Less</i> Accumulated depreciation	50,000	950,000
Plant	150,000	
<i>Less</i> Accumulated depreciation	18,750	131,250
Liabilities		
Accounts payable		25,000
Provision for annual leave		10,000
Provision for warranty expenses		12,000
Loan		140,000

Other information:

- The plant is being depreciated equally over the useful life of 8 years for accounting purposes, but for taxation purposes it is being depreciated using the diminishing balance method at a rate of 25%.
- For accounting purposes the buildings are depreciated on a straight line basis over their useful life of 20 years. For taxation purposes however, Pistachio Ltd have decided to depreciate the buildings at a rate of 5% straight line.
- Bad debts were written off during the year. (How to calculate bad debts?)
- There was one claim made on a warranty during the year, and 10 employees have already taken their long service leave.
- The \$1,700 spent (and expensed) on entertainment during the year represents a permanent difference between accounting and taxable profit.
- For Pistachio Ltd, tax deductions are available only when amounts are paid and not as they are accrued.
- The tax rate is 30%.

Required:

a Clearly show your calculations to identify the temporary differences.[6 marks]

b Clearly show your calculations to determine income tax expense and income tax payable.
[9 marks]

c Provide the journal entries to account for income tax in accordance with AASB 112 [2 marks]



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