

ACC/ACF2100 Financial Accounting

Topic 3 Accounting for Income Tax: Current Tax Issues Presentation Question

The financial statements of Bluecap Ltd for the year ended 30 June 2018 show a profit before tax of \$15,500, including the following items of income and expense:

Fines and penalties	\$3,500
Impairment of goodwill	7,400
Depreciation expense – plant	14,000
Bad debts expense	5,400
Annual leave expense	8,400
Warranty expense	7,500
Insurance expense	2,000
Rent revenue	3,500

Additional Information:

- (a) The tax deduction for plant depreciation was \$24,000.
- (b) There were no bad debts written off during the current year.
- (c) Annual leave costs of \$22,800 had been paid during the current year.
- (d) The balance of the Provision for Warranty account at 30 June 2017 was \$5,500, and at 30 June 2018 the balance in the account was \$6,800.
- (e) The balance of the Prepaid Insurance account at 30 June 2017 was \$4,600, and the balance in the account at 30 June 2018 was \$2,900.
- (f) The balance of the Rent Received in Advance account at 30 June 2017 was \$4,000, and the balance in the account at 30 June 2018 was \$3,500.
- (g) Bluecap Ltd has an expectation of profits in future years.
- (h) The corporate tax rate is 30%.

Required

Prepare the complete current tax worksheet for the year ended 30 June 2018 and the applicable tax journal entries. Explain why each worksheet adjustment and journal entry is necessary.