

ACC/ACF2100 Financial Accounting

Topic 4 Accounting for Income Tax: Deferred Tax Issues Presentation Question

Centaur Ltd commenced operations and purchased a machine on 1 July 2015. The cost of the machine was \$160 000. The machine had a useful life of 4 years and the company adopts the straight-line basis of depreciation. The tax depreciation rate for this type of machine is 50% p.a.

Warranty expense of \$4 000 is recorded at the end of the 2016 financial year, and a further \$4 000 warranty expense is recorded at the end of the 2017 financial year. During 2018, no expense is recorded, however warranty costs paid were \$2 000.

The company tax rate is 30%.

Required

- a)** For the first three years of the asset's useful life (2016, 2017, 2018), calculate the carrying amount and tax base of the asset, and determine the deferred tax entry in relation to the machine. Explain your answer.
- b)** For each of the three years (2016, 2017, 2018), calculate the carrying amount and tax base of the provision for warranty and prepare the deferred tax journal entry. Explain your answer.