

QUESTION 4

a. Bonecrusher Ltd. purchased a noncurrent asset in 2008 at a cost of ₦ 4,500,000. The initial and annual capital allowances were 25% and 20% respectively. The asset has an estimated life of 6 years and a nil residual value. Straight line depreciation is used for the financial accounts. Corporate tax is 30% of taxable profit. **Required:**

- i. With the use of a table, show the timing difference (indicating what type it is), and deferred tax for the life span of the asset.
- ii. Show the ledger entries for the deferred tax for each of the years concerned. (8 Marks)

a. Bonecrusher Ltd.

Year	Capital Allowance	Depreciation	Timing Difference	Type	Deferred Tax @ 30%
2008	1,800,000	750,000	1,050,000	Originating	315,000
2009	675,000	750,000	(75,000)	Reversing	(22,500)
2010	675,000	750,000	(75,000)	Reversing	(22,500)
2011	675,000	750,000	(75,000)	Reversing	(22,500)
2012	675,000	750,000	(75,000)	Reversing	(22,500)
2013	-	750,000	(750,000)	Reversing	(225,000)

	Capital Allowance	Depreciation	=450,000/6	=750,000
Cost	4,500,000			
2008 Initial Allowance	(1,125,000)			
	3,375,000			
Annual allowance	(675,000)			
	2,700,000			
2009 Annual allowance	(675,000)			
	2,025,000			
2010 Annual allowance	(675,000)			
	1,350,000			
2011 Annual allowance	(675,000)			
	675,000			
2012 Annual allowance	(675,000)			
	-			

45ticks/9=5 Marks

Deferred Taxation					
2008	Bal c/d	315,000	2008	P or L	315,000
2009	P or L	22,500	2009	Bal b/d	315,000
	Bal c/d	292,500			
		315,000			315,000
2010	P or L	22,500	2010	Bal b/d	292,500
	Bal c/d	270,000			
		292,500			292,500
2011	P or L	22,500	2011	Bal b/d	270,000
	Bal c/d	247,500			

		270,000			270,000
2012	P or L	22,500	2012	Bal b/d	247,500
	Bal c/d	225,000			
		247,500			247,500
2013	P or L	225,000	2013	Bal b/d	225,000
		225,000			225,000

		P or L	
2008	Deferred Tax	315,000	
2009	Deferred Tax		22,500
2010	Deferred Tax		22,500
2011	Deferred Tax		22,500
2012	Deferred Tax		22,500
2013	Deferred Tax		225,000

33 ticks/11=3 Marks

QUESTION 5

a. Compare and contrast

- i. Current Tax and Deferred Tax
- ii. Accounting Profit and Taxable Profit

(3

Marks)

b. On January 1st 2017, **JayTee Ltd.** had the following balances in its books:

- Current Tax A/c ₦45,500 (Cr)
- Deferred Taxation A/c ₦12,500 (Cr).

The following information was also provided for the year 2017:

- Debenture interest (gross) ₦13,000 was received on 30th December.
- Debenture interest (gross) paid to debenture holders was ₦17,000 on 31st December.
- The actual Company income tax owing for 2016, ₦39,600, was paid in full on 30th September, 2017.
- Company income tax for the year ended 31st December, 2017 was estimated at ₦57,000
- Depreciation of ₦38,000 was charged; while Capital Allowance was agreed at ₦35,700.
- Net trading profit after depreciation, but before the debenture interests was ₦320,000

Required:

- i. Show the necessary accounts to record the transactions above;
- ii. Prepare extracts from the income statement, and statement of financial position.

Assume: Company Income Tax Rate is 30%, and With-holding tax rate is 10%

(10

Marks)

a.

Debenture Interest Receivable				Bank			
P or L	13,000	Bank	11,700	Interest rec.	11,700	Debenture Interest	15,300
		WHT	1,300			Current Tax	39,600
	<u>13,000</u>		<u>13,000</u>				
Debenture Interest				Current Tax			
Bank	15,300	P or L	17,000	Bank	39,600	Bal. b/d	45,500
WHT	1,700			Bal. c/d	57,000	P or L	51,100
	<u>17,000</u>		<u>17,000</u>		<u>96,600</u>		<u>96,600</u>
Withholding tax				Deferred Tax			
Debenture Interest receivable	1,300	Debenture Interest	1,700	P or L	690	Bal. b/d	12,500
Bank	400			Bal. c/d	11,810		
	<u>1,700</u>		<u>1,700</u>		<u>12,500</u>		<u>12,500</u>

Statement of Financial Position (Extract)

Net Profit before Interests	320,000	Capital Allowance	35,700
Intrest Income	13,000	Depreciation	<u>(38,000)</u>
Interest	<u>(17,000)</u>	Timing Difference	<u>(2,300)</u>
	316,000	Deferred Tax (30%*2,300)	690
Taxation:	Current Tax 51,500		
	Deferred Tax <u>(690)</u>		
	<u>(50,810)</u>		
	<u>265,190</u>		