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USER GUIDE

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Contents

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Associate of the Institute of Chartered Accountants in Australia
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Stephen has been a tax partner with Moore Stephens since 2001 and has been a tax advisor since 1989. He has acted for a diverse range of clients including individuals, large private groups, government entities and public groups. He has considered a wide variety of issues.

Stephen's main emphasis during this period has been on providing taxation consulting services to large private groups and public groups in the following industries:

•   property;

•   manufacturing;

•   building products;

•   funds management; and

•   university sector.

The type of work that Stephen has performed for these organisations includes:

•   consideration of complex CGT and loss recoupment issues including, issues arising on the sale or restructure of businesses and ensuring that appropriate rollovers are utilised;

•   taxation due diligences, reviews of prospectuses and inclusion of taxation opinions in prospectuses;

•   advising on the taxation implications of the winding up of companies and trusts;

•   presenting on technical issues including FBT, GST, Capital Gains Tax and Business Tax Reform;

- GST Implementation and Reviews;

- maximising R & D claims and grants;

- dealing with the ATO and applying for rulings; and

- dealing with income tax, FBT and GST obligations and exemptions.

He has played a substantial role in the writing of the leading taxation publications authored by Moore Stephens and is the author of the *FBT Compliance Toolkit*.

Moore Stephens and Tax Effect Accounting Toolkit

In developing the *Tax Effect Accounting Toolkit*, Moore Stephens has brought together its extensive practical experience in preparing tax returns and authoring electronic calculators to produce a detailed yet simple and easy to use electronic solution.

Moore Stephens is also responsible for the production of several other leading publications including: *The Accountant's Manual*, *FBT Compliance Toolkit*, *Salary Packaging Toolkit*, and *Company Tax Return Generator*.

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Introduction and overview

In July 2002, the Financial Reporting Council announced a fundamental change in the strategic direction of standard setting from one of 'harmonisation' to 'adoption' of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB).

In accordance with the decision, a new set of AASBs have been founded on the verbatim use of the International Financial Reporting Standards of the IASB and are supplemented by local Standards to meet domestic reporting requirements. The new set of AASBs is applicable to financial reporting periods commencing on or after 1 January 2005.

The introduction of IFRS presents an enormous challenge for Australian businesses, their advisers and the accounting profession. For instance, **AASB 112 Income Taxes** introduces a conceptual change in the manner in which reporting entities account for income taxes.

Broadly, a key change is that the future tax liability associated with unrealised gains (booked as a revaluation) will need to be reflected in the accounts. The change may negatively impact the financial statements of affected entities, which would have flow-on implications for:

• loan covenants based on accounting ratios;

• thin capitalisation safe harbour calculations;

• performance thresholds; and

• other relevant contractual covenants.

The entities most affected by this change to the balance sheet approach will be entities with the following accounting issues:

• asset revaluations;

• fair value adjustments;

• subsidiaries — local and abroad;

• investments in associates;

• transaction costs in equity;

- compound financial instruments; and

- business acquisitions.

Affected entities should now assess the impact of AASB 112 on their financial statements.

This section of the guide provides guidance on the application of AASB 112.

- A reference to the **standard** in this guide is a reference to AASB 112.

- A reference to the **old standard** is a reference to the 1989 version of AASB 1020.

The application of AASB 112

The standard prescribes the accounting treatment for income taxes. The standard covers:

- the accounting treatment of current and deferred tax expenses;

- recognition and measurement of current tax assets and liabilities;

- recognition and measurement of deferred tax assets and liabilities;

- the accounting treatment of the tax consequences of various transactions and events, including asset revaluations;

- the accounting policies applicable for when an entity has tax losses; and

- the disclosure requirements in relation to tax items.

The standard applies to:

- each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

- general purpose financial reports of each other reporting entity; and

- financial reports that are, or are held out to be, general purpose financial reports.

In other words, non-reporting entities are not compelled to adopt the standard when preparing specific purpose financial reports. However, as the standard is a 'measurement standard' (as opposed to a 'disclosure standard'), it is recommended that non-reporting entities adopt the standard.

When does the standard apply?

The standard applies to annual reporting periods beginning on or after 1 January 2005. Early adoption is not permitted. The standard supersedes the current **AASB 1020 Income Tax** (both the 1989 and 1999 versions).

For June balancers, the standard will apply from 1 July 2005 (i.e. the 2006 financial year). AASB 1 however requires that entities restate comparatives as if AASB 112 had always applied. Therefore, those companies preparing their interim December 2005 financial reports will need to restate their December 2004 comparatives under AASB 112.

Similarly, the 2006 full year accounts will require comparative information for the 2005 year to be prepared on the basis that AASB 112 had always applied. This is depicted below:
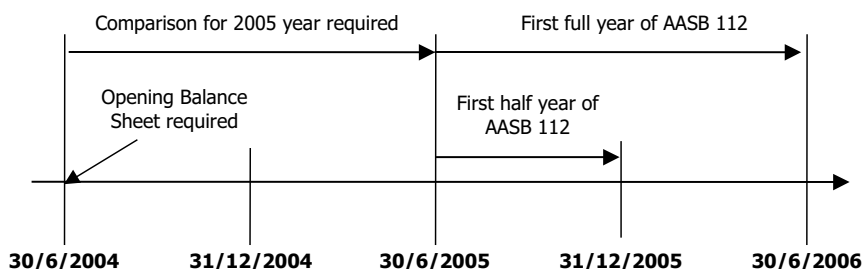
As a result of the new standard, you will need to:

•   calculate the 2005 tax balances for both the balance sheet and the income statement balances using the new standard. You can use the **Tax Effect Accounting Toolkit** to derive these balances.

     See **Six-step approach** for a detailed explanation (page 16).

•   determine your starting balances at the beginning of the 2005 financial year.

2005 accounts

AASB 1047 requires the disclosure of the impacts of adopting the Australian equivalents to International Financial Reporting Standards (IFRS). This means that for the year ending 30 June 2005 reporting entities need to disclose:

(a)   any known or reliably estimable information about the impacts of the financial reports had they been prepared using the Australian equivalents to the International Financial Reporting Standards; or

(b)   if the impacts in (a) above are not known or reliably estimable, a statement to that extent.

Terminology

A comparison of the key terminology used in the 1989 version of AASB 1020 and the new AASB 112 is set out below:

AASB 1020 (1989) Statement of Financial Performance approach	AASB 112 Statement of Balance Sheet approach
Income tax expense	Current tax expense, deferred tax expense
Provision for income tax	Current tax liability
Provision for deferred income tax (PDIT)	Deferred tax liability (DTL)
Future income tax benefit (FITB)	Deferred tax asset (DTA)
Timing and permanent differences	N/A — but concept of temporary differences used
Taxable income	Taxable profit

The definitions of the key terms used in AASB 112 are as follows:

Term	Definition
Accounting profit	Profit or loss for a period before deducting tax expense.
Current tax	The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
Deferred tax assets	The amounts of income taxes recoverable in future periods in respect of: • deductible temporary differences; • the carry-forward of unused tax losses; and • the carry-forward of unused tax credits.
Deferred tax liabilities	The amounts of income taxes payable in future periods in respect of taxable temporary differences.
Taxable profit (tax loss)	The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).
Tax base of an asset or liability	The amount attributed to that asset or liability for tax purposes.
Tax expense (tax income)	The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
Temporary differences	Differences between the carrying amount of an asset or liability in the balance sheet and its tax base.
Deductible temporary differences	Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
Taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Conceptual differences

Balance sheet (Statement of Financial Position) approach v. the income statement (Statement of Financial Performance) approach

AASB 112 is based on a **balance sheet approach** to account for income taxes, as opposed to an **income statement approach**. The balance sheet approach is conceptually different to the income statement approach under the 1989 version of AASB 1020.

Under the **income statement approach**:

- The entity will prepare a reconciliation from accounting profit/loss to taxable income/loss.

- From the reconciliation items, timing differences are identified.

- The adjustments representing timing differences are used to determine the movement (and hence the balance) of the following accounts:

    — future income tax benefit (FITB); and

    — provision for deferred income tax (PDIT).

Under the **balance sheet approach**[1]:

- A tax reconciliation is still required.

- However, the focus is on the balance sheet in calculating the movement and balances in the deferred tax asset account (previously referred to as FITBs) and the deferred tax liabilities account (previously referred to as PDITs).

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[1] The recovery or settlement of asset and liability carrying amounts can lead to future taxable and deductible amounts. The balance sheet approach is based on the general principle that the current and future tax consequences of all transactions and other events recognised in an entity's balance sheet give rise to current and deferred tax liabilities and assets.

The above means that:

*   The current four-column approach to accounting for income taxes is no longer appropriate. The **Tax Effect Accounting Toolkit** provides a suggested methodology that is both comprehensive and systematic.

*   Generally, the deferred tax balances are larger under the balance sheet approach as compared to the income statement approach.

Why are deferred tax balances likely to be larger?

Under the new standard, deferred tax balances are likely to increase because certain items will be tax-effected for the first time. The following are examples of items that were not previously tax-effected, which will be now:

*   **asset revaluations** — because the change in the carrying amount of the asset does not affect its tax cost/tax base;

*   **acquisitions of entities or operations** — because the assets and liabilities acquired will be reflected at fair value and this is generally not the same as their tax base;

*   **investments in subsidiaries, branches, associates and joint venture activities** — because the value of the assets used to determine the value of the 'equity-accounted investment' in the parent entity may differ to the tax base of the investment;

*   **exchange differences that arise when recognising a foreign subsidiary/associate in consolidated accounts** — because of the different exchange rates used to convert the carrying amount and tax base of assets and liabilities; and

*   **components of convertible financial instruments classified as equity**.

Comparison between income statement approach and balance sheet approach

Requirements under AASB 112 and the impact of the change from the income statement approach under the superseded 1989 version of AASB 1020.

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Recognition of current tax assets (CTA) and liabilities (CTL)	AASB 112 defines current tax as the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for a period. To the extent that they are unpaid, current tax for current and prior periods are to be recognised as a liability. An asset will be recognised when the amount already paid in respect of current and prior periods exceeds the amount due for those periods.	The two methods will give rise to the same CTL/ provision for income tax.
Measurement of CTA and CTL	CTA and CTL for the current and prior periods should be measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the reporting date.	The two methods will give rise to the same CTL/ provision for income tax.
Notion of tax base and temporary differences	The tax base of assets and liabilities is the amount attributed to that asset or liability for tax purposes. Temporary differences (TD) are the differences between the carrying amount (CA) of an asset or liability in the balance sheet and its tax base (TB). TD = CA - TB	The income statement approach does not rely on the notion of tax base but focuses on the tax effect of transactions recognised in the statement of financial performance.

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Recognition of deferred tax liabilities (DTL)	DTLs are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Taxable temporary differences are temporary differences that will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability settled. A DTL should be recognised for all taxable temporary differences, except where the DTL arises from: • the initial recognition of goodwill; or • goodwill for which amortisation is not deductible for tax purposes; or • the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (for example pre-CGT assets); or • investments in subsidiaries, branches and associates, and interests in joint ventures, where: — the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and — it is probable that the temporary difference will not reverse in the foreseeable future.	There will be a greater amount of DTLs under AASB 112 as it will be calculated on more items. For instance, the revaluation of an asset will give rise to a DTL under AASB 112.

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Recognition of deferred tax assets (DTA)	DTAs are the amounts of income taxes recoverable in future periods in respect of: • deductible temporary differences; • the carry-forward of unused tax losses; and • the carry-forward of unused tax credits. Deductible temporary differences are temporary differences that will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled. A DTA should be recognised for all deductible temporary differences where it is probable that taxable profit will be available against which the deductible tempo-rary difference can be utilised. However, a DTA will not be recognised if it arises from: • the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the trans-action, affects neither accounting profit nor taxable profit; or	There will be a greater amount of DTAs as it will be easier to meet the recognit-ion criteria under AASB 112. For example, the DTA in respect of tax losses can be recognised when broadly, it is probable that the future benefit will be realised. The 1989 version of AASB 1020 requires the expected recoupment of the losses to be 'virtually certain'.

— continued

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Recognition of deferred tax assets (DTA) — *continued*	• investments in subsidiaries, branches and associates, and interests in joint ventures where the temporary difference will not reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilised. A DTA should be recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. When an entity has a history of recent losses, a DTA will only be recognised if it arises from unused tax losses or tax credits only to the extent that: • the entity has sufficient taxable temporary differences; or • there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity.	

— continued

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Measurement — deferred tax assets and liabilities	DTAs and DTLs are broadly calculated for assets as follows: DTA = (TB – CA) x tax rate DTL = (CA – TB) x tax rate A DTA's carrying amount should be reviewed at each reporting date. The carrying amount of a DTA should be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the DTA to be utilised. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit would be available.	FITBs and PDITs are measured based on timing differences that have a tax return or profit and loss impact.
Recognition of current and deferred tax expense	Current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, unless the tax arises from: • a transaction or event which is recognised, in the same or a different period, directly in equity. (Current tax and deferred tax shall be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity); or • a business combination.	Tax expense will be broken up between current tax expenses and deferred tax expenses. Income tax expenses under the income statement approach will generally equal the total tax expense under AASB 112. The exception is when: • there is a tax effect recognised in equity; and • there are adjustments that are permanent differences under the old standard and the same adjustments give rise to temporary differences under the new standard.

— continued

	AASB 112 balance sheet approach	**Impact compared to the superseded 1989 AASB 1020 income statement approach**
Goodwill	DTL will not be recognised if they arise from the initial recognition of goodwill or good-will for which amortisation is not deductible for tax purposes.	No DTL is recognised for goodwill under the income statement approach.
Revaluation of assets	A DTL or DTA should be recognised in respect of asset revaluations as the difference between the carrying amount of a revalued asset and its tax base is a temporary difference.	DTL will increase under AASB 112 given that no DTL is recognised for revaluations under the income statement approach.
Investments in subsidiaries, branches and associates, and interests in joint ventures	Temporary differences may arise from investments in subsidiaries, branches and associates, or interests in joint ventures. All taxable temporary differ-ences associated with invest-ments in subsidiaries, branches and associates, and interests in joint ventures should be recognised as a DTL by an entity, unless both of the following conditions are satisfied: • the parent, investor or venturer is able to control the timing of the reversal of the temporary differ-ences; and • it is probable that the temporary differences will not reverse in the foreseeable future.	Deferred tax balances will increase as no temporary differences are recognised for investments in associates under the income statement approach. The share of profit/losses is treated as a permanent difference.

— continued

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Investments in subsidiaries, branches and associates, and interests in joint ventures — *continued*	All deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures should be recognised as a DTA by an entity to the extent that it is probable that: • the temporary differences will reverse in the foreseeable future; and • taxable profit will be available against which the temporary differences can be utilised.	
Offsetting deferred tax assets and deferred tax liabilities	An entity should offset DTAs and DTLs only if: • the entity has a legally enforceable right to set-off current tax assets against current tax liabilities; and • the DTAs and the DTLs relate to income taxes levied by the same taxation authority on either: — the same taxable entity; or	DTAs and DTLs can generally be offset where they are likely to reverse in the same financial periods.

	AASB 112 balance sheet approach	Impact compared to the superseded 1989 AASB 1020 income statement approach
Offsetting deferred tax assets and deferred tax liabilities — *continued*	— different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of DTLs or DTAs are expected to be settled or recovered.	
Presentation	Tax expense or income must be presented on the face of the income statement. Certain disclosures in relation to tax expense or income and DTLs and DTAs are required.	

Six steps to apply AASB 112

To calculate the tax balances at the end of the period, the following steps are recommended:

Step 1 — Calculate the current tax liability and current tax expense (see page 16).

Step 2 — Recognise the current tax expense in the Statement of Financial Performance unless an amount is required to be recognised in equity (see page 16).

Step 3 — Determine the carrying amount and tax bases of assets and liabilities (see page 17).

Step 4 — Determine the temporary differences (see page 23).

Step 5 — Calculate and recognise the deferred tax assets and deferred tax liabilities arising from temporary differences (see page 26).

Step 6 — Recognise the movement in deferred tax balances as deferred tax expense or revenue in the balance sheet (see page 31).

Steps 1 and 2 — Current tax

Income tax expense

A key difference between AASB 112 and the old standard is that, under AASB 112, income tax expense must be split between its current and deferred components, i.e.:

Income tax expense	=	Current tax expense	+	Deferred tax expense (Broadly, the Net movement in deferred tax balances)

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for a period (i.e. tax rate x taxable profit). Deferred tax is the net movement in the deferred tax liability and deferred tax asset balances during the period adjusted for amounts recognised directly in equity.

Tip: Income Tax Expense

The income tax expense under the old standard and AASB 112 will be different if there are items that were permanent differences under the old standard but are temporary differences under the new standard. One example is the recognition of a share of profit in an investment in an associate.

Current tax asset or liability

Under AASB 112, the current tax of an entity is required to be recognised. A current tax asset or liability is defined as the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for a period i.e.:

Current tax liability = taxable profit x tax rate

Step 3 — Carrying amount and tax base

Carrying amount

The carrying amount of an asset or liability is basically its book value (i.e. the value as recorded in the accounts).

Temporary differences are calculated based on the carrying amount of assets and liabilities.

As a result:

• AASB 112 is the final adjustment after applying all other accounting standards; and

• if the increase in value of an asset is not booked (e.g. through revaluation), then the value increment is **not** a temporary difference.

Tax base

A fundamental principle under AASB 112 is that the tax base for each asset and liability must be calculated. This is the value that is relevant for tax purposes and which is used for the calculation of capital gains tax, tax depreciation and taxable income or deductions.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. For instance:

Tax base of:	Is its:
Capital gains tax assets	In most cases cost base, reduced cost base or indexed cost base as appropriate.
Depreciating assets	Closing adjustable value (i.e. tax written down value)
Trading stock	Tax value
Liability incurred for tax	Face value
Liability not incurred for tax that gives rise to future deductions (e.g. provision for annual leave, audit fee accrual)	Nil
Liability not incurred for tax but does not give rise to the deductions (e.g. provision for environmental fines)	Carrying amount (face value generally)

Tax base of an asset

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. The taxable economic benefits may represent sales generated from the use of the asset or the consideration from its eventual disposal. There is a presumption that the entity will recover the carrying amount of the asset.

The following formula (obtained from the 1999 version of AASB 1020) may be used to calculate the tax base of an asset:

Tax base	=	Carrying amount	—	Future assessable income	+	Future deductible amounts

Management's intent to use or sell assets affects the tax base of the asset.

Example 1

A building has a carrying amount of $500 and a CGT cost base of $500.

Tax base	=	$500 Carrying amount	—	$500 Realisation of asset assessable income	+	$500 CGT cost base

The tax base of the building will equal $500.

Example 2

Equipment has a carrying amount of $600. The tax written down value is $300.

Tax base	=	$600 Carrying amount	—	$600 Assessable revenue	+	$300 Unclaimed written down value

The property, plant and equipment will have a tax base of $300.

Example 3

Interest receivable has a carrying amount of $150. The interest revenue will be taxed on a cash basis.

Tax base	=	$150 Carrying amount	—	$150 Assessable revenue	+	Nil

The interest receivable will have a tax base of Nil.

Example 4

Trade receivables has a carrying amount of $400.

Tax base	=	$400 Carrying amount	—	Nil Related revenue has already been included in assessable income	+	Nil No deductions available when collected

The trade receivables will have a tax base of $400.

Example 5

A loan receivable has a carrying amount of $200.

Tax base	=	$200 Carrying amount	—	Nil Loan repayment has no tax conse-quences	+	Nil No deductions available when loan is repaid

The above formula is useful. However, the tax base could be determined by logic without having to resort to the formula.

Tax base of a liability

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods, i.e.:

Tax base	=	Carrying amount	+	Future assessable income	—	Future deductible amounts

Example 1

A loan payable has a carrying amount of $400.

Tax base	=	$400 Carrying amount	+	Nil	—	Nil Loan repayment has no tax conse-quences

The loan will have a tax base of $400.

Example 2

Accrued expenses with a carrying amount of $50, which the related expense, for tax purposes, will be deductible on a cash basis.

Tax base	=	$50 Carrying amount	+	Nil	—	$50 Deductions available in future when paid

The accrued expenses will have a tax base of Nil.

Example 3

Accrued expenses with a carrying amount of $50, which the related expense, for tax purposes, has already been deducted.

Tax base	=	$50 Carrying amount	+	Nil	—	Nil Deduction has already been claimed
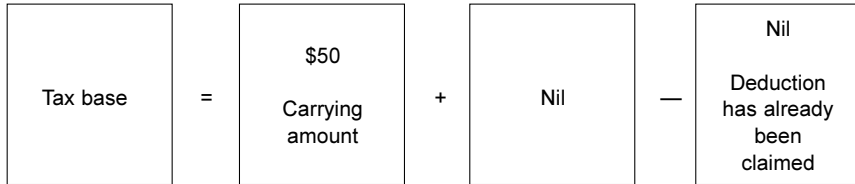
The accrued expenses will have a tax base of $50.

Example 4

Accrued fines and penalties with a carrying amount of $150.

Tax base	=	$150 Carrying amount	+	Nil	—	Nil No deductions available for tax purposes for fines and penalties
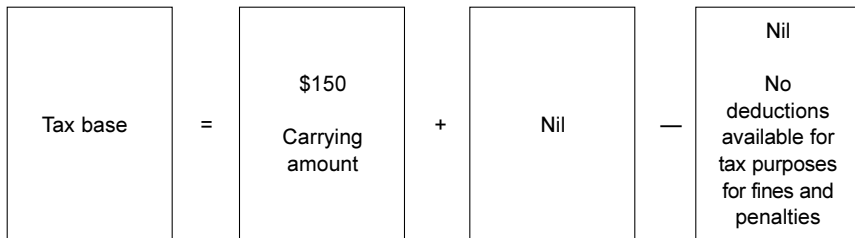
The accrued fines and penalties will have a tax base of $150.

Tax base of a liability representing revenue in advance/ prepaid revenue

In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

The following formula may be used to calculate the tax base of a liability representing revenue in advance/prepaid revenue:

Tax base	=	Carrying amount	—	Amounts already included in taxable income
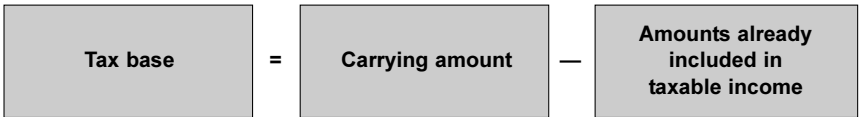
The tax base of the asset or liability will be equal to its carrying amount in situations where the economic benefits in the recovery or settling of the carrying amount has no future tax consequences.

Example

Interest revenue received in advance with a carrying amount of $300, which the related revenue has already been taxed on a cash basis.

Tax base	=	$300 Carrying amount	—	$300 Revenue already included in taxable income
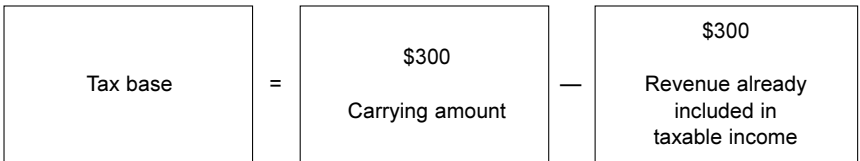
The interest revenue will have a tax base of Nil.

Step 4 — Calculation of temporary differences

Under the balance sheet approach the carrying amount (i.e. the amount recorded in the accounts and not necessarily the current market value) of assets and liabilities is compared to the notional tax balance sheet. The notional tax balance sheet contains the tax bases of the assets and liabilities. The difference between the two represents a temporary difference.

This is depicted below:

Accounting balance sheet	—	Notional tax balance sheet	=	Taxable or deductible temporary difference
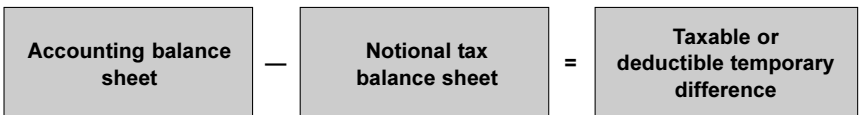
Temporary differences may be either a deductible temporary difference (those that result in future reduction in tax) or a taxable temporary difference (those that result in future increase in tax).

Deductible temporary difference

A deductible temporary difference is a temporary difference that will result in amounts that are deductible in determining taxable profit/(tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. They represent the tax benefit of future deductions or losses. A deductible temporary difference will usually arise out of a liability where the carrying amount of the liability is greater than the tax base.

Examples of deductible temporary differences that can give rise to deferred tax asset balances are:

• provision for employee entitlements;

• accruals not yet incurred, for example:

— audit fees;

— superannuation; and

— bonuses,

• tax written-down value of depreciating assets exceeding their accounting written-down values;

• carrying amount of a building being less than the tax cost base due to a revaluation decrement; and

• stock being recognised at net realisable value being less than the amount recognised for tax purposes (e.g. cost).

A deductible temporary difference generally represents future deductions or a future tax benefit of tax losses.

Tip: Devaluation Decrement

The negative profit and loss impact of a devaluation decrement may be lessened by the associated tax adjustment.

Taxable temporary difference

A taxable temporary difference is a temporary difference that will result in taxable amounts in determining taxable profit of future periods when the carrying amount of the asset or liability is recovered or settled. A taxable temporary difference will give rise to a deferred tax liability. A taxable temporary difference will usually arise out of an asset where the carrying amount of the asset is greater than the tax base.

Examples of taxable temporary differences include:

• revaluation component of an asset that has been revalued upwards for tax;

• investment in an associate where its carrying amount exceeds its cost base due to the application of equity accounting; and

• deductible prepayments (e.g. prepaid land tax).

An assessable temporary difference generally represents future assessable amounts or capital gains.

Tips: Revaluation or Fair Value Adjustment
• The positive net asset impact of a revaluation or fair value adjustment will be reduced by the associated tax adjustment.
• It is worth considering whether the recognition exceptions apply.

Tips: Other
• The introduction of the concept of tax bases means auditors will need to work closely with the tax personnel to calculate the required tax balances.
• When the carrying amount or tax bases of assets or liabilities are not immediately apparent, it is worth noting the fundamental principle set out in AASB 112. The fundamental principle is that '… an entity shall, with certain limited exceptions, recognise a **deferred tax liability** (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences' (AASB 112).

Step 5 — Deferred tax assets and deferred tax liabilities

The temporary differences, subject to the recognition exceptions, are multiplied by the applicable tax rate to calculate the value of deferred tax assets and deferred tax liabilities. A deferred tax asset or liability is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets

Measurement

A deferred tax asset is equal to the amount of income tax recoverable in future periods in respect of deductible temporary differences.

A deferred tax asset is calculated as follows:

Deferred tax asset	=	Deductible temporary difference	x	Tax rate

Example

XYZ Ltd has a provision for employee entitlements of $250,000. Using a tax rate of 30%, the deferred tax asset (represented by a future deduction when the provision is paid) in relation to this liability is $75,000 ($250,000 x 30%).

Recognition

A deductible temporary difference will only give rise to a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. This is a different recognition criteria to the old standard.

This difference is summarised below:

AASB 1020 (1989)	AASB 112
Recognised when:	Recognised when 'probable':
• Future income tax benefits are beyond reasonable doubt.	• Balance of positive and negative evidence.
• Tax losses are virtually certain.	• 50% likelihood?

The 'probable' criteria is less stringent than the 'beyond reasonable doubt' and 'virtual certainty' criteria contained in the old standard. From a practical perspective, all evidence both negative and positive, is taken into account in determining whether a deferred tax asset is recognised.

A deferred tax asset's carrying amount should be reviewed at each reporting date. The carrying amount of a deferred tax asset should be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit would be available.

When is a deferred tax asset not recognised?

Initial recognition exception

A deferred tax asset is not recognised where it arises from the initial recognition of an asset or liability in a transaction that:

•   is not a business combination (bringing together of separate entities of businesses into one reporting entity); and

•   at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Certain investments

Where the deductible temporary difference resulted from an investment in subsidiaries, branches and associates, and interests in joint ventures, a specific recognition exception may apply.

See **Investments in subsidiaries, branches, associates and interests in joint ventures** for a detailed explanation (page 33).

Deferred tax liabilities

Measurement

A deferred tax liability is equal to the amounts of income taxes payable in future periods in respect of taxable temporary differences.

A deferred tax liability is calculated as follows:

Deferred tax liabilities	=	Taxable temporary difference	x	Tax rate

The discounting of a deferred tax liability is not permitted in any circumstances.

Example

XYZ Ltd revalued an asset by $100,000. Using a tax rate of 30%, the deferred tax liability with respect to the revaluation is $30,000 ($100,000 x 30%).

Recognition — when is a deferred tax liability not recognised?

Goodwill

A deferred tax liability should be recognised for all taxable temporary differences, unless the deductible temporary differences resulted from:

- the initial recognition of goodwill; or

- goodwill for which amortisation is not deductible for tax purposes (which is the case in Australia).

Initial Recognition

A deferred tax liability should be recognised for all taxable temporary differences unless the deductible temporary differences resulted from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and

- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Example

XYZ Ltd acquired a piece of Australian land from its wholly-owned subsidiary, B (UK) Pty Ltd. The purchase was recorded at market value for accounting purposes. The group applied the capital gains tax rollover relief whereby the capital gains tax is deferred and XYZ Ltd adopts the cost base of the asset in the hands of B (UK) Pty Ltd immediately before the transfer. The difference between the carrying amount of the land and its tax base in the hands of XYZ Ltd represents a future capital gain (i.e. an assessable temporary difference). However, the deferred tax liability is not recognised due to the recognition exception. This is because the purchase of the land is not a business combination and the purchase does not affect the accounting profit or loss and taxable profit of XYZ Ltd.

Tips: Recognition Exemption
• The recognition exception can apply to assets acquired before the commencement date of the new standard.
• The recognition exception is lost if the asset (e.g. the land in the above example) is subsequently revalued. The whole unrealised gain can give rise to a taxable temporary difference that must be recognised.
• The exception will apply in most cases where an asset has a deemed cost base for tax purposes. This includes a car where the deductible depreciation base is limited to a 'car limit'.

However, where the deductible temporary difference resulted from an investment in subsidiaries, branches and associates, and interests in joint ventures, a specific recognition criterion applies.

See **Investments in subsidiaries, branches, associates and interests in joint ventures** for a detailed explanation (page 33).

The difference in the recognition criteria from the old standard is set out below.

AASB 1020 (1989)	AASB 112
Generally, deferred tax liabilities are recognised when there is a tax return or statement of financial performance impact.	Must recognise deferred tax liabilities except in specific circumstances.

Deferred tax assets arising from unused tax losses and tax credits

Measurement

A deferred tax asset will arise from income tax recoverable in future periods in respect of unused tax losses and credits and is calculated as follows:

Deferred tax asset	=	Unused tax losses/ tax credits	x	Tax rate

The discounting of a deferred tax asset is not permitted in any circumstances.

Tips: Tax Credits
• Entities should consider whether they are able to recognise the tax benefit associated with carried forward foreign tax credits.
• Tax credit for this purpose does not include the franking credits that an entity is able to pass to its shareholders by paying franked dividends.

Recognition

A deferred tax asset recognised from the carry forward of unused tax losses and unused tax credits will only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and the unused tax credits can be utilised.

The existence of unused tax losses is strong evidence that future taxable profit may not be available. The following criteria must be followed in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

•   whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;

•   whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;

- whether the unused tax losses result from identifiable causes which are unlikely to recur; and

- whether tax planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

Step 6 — Recognition of deferred tax expense

The deferred tax expense for the period will be equal to the movement between opening and closing deferred tax balances for the period (unless part of the movement is recognised against equity).

Deferred tax	=	Closing deferred tax balances	—	Opening deferred tax balances

Transaction/event recognised in profit/loss

Current and deferred tax expense must be recognised as income or an expense in the profit or loss of the income statement for the period except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity; or

- a business combination.

Transaction/event recognised directly in equity

Current tax and deferred tax must be charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity, in the same or a different period.

Examples are:

- revaluations;

- equity raising costs;

- compound financial interests; and

- cash flow hedges.

Special rules for recognising deferred tax balances

Asset revaluation and assets carried at fair value

A deferred tax asset or a deferred tax liability should be recognised in respect of asset revaluations. In a revaluation, there will be no change in the tax base but the revaluation will affect the carrying amount of the asset.

Revaluation increments result in a deferred tax liability and are generally recognised against the asset revaluation reserve. In contrast, revaluation decrements will generally result in a deferred tax liability and will be recognised against the profit or loss.

Example

An asset with a historical cost of $200 has been revalued to $250 through the asset revaluation reserve for accounting purposes. The journal entries will be as follows:

Dr Asset	$50	
Cr Asset revaluation reserve		$50
Dr Asset revaluation reserve	$15	($50 x 30%)
Cr Deferred tax liability		$15

The balance sheet would show:

Asset	$250
Deferred tax liability	($15)
Net Assets	**$235**
Asset revaluation reserve	($35)

Under the old method, the tax impact of a revaluation is not recognised. This means that under the new standard, all revaluation increments will have a less positive impact on the balance sheet.

Business combinations

Deferred balances must be recognised and taken into account in measuring goodwill or discount on acquisition where:

• a deferred tax balance arises on the acquisition of an entity; and

• the deferred tax balance has not been recognised by the acquiring or acquired entity prior to the acquisition.

 (In most cases, the acquired entity may not have recognised deferred tax balances due to the recognition exceptions discussed in **Step 5** — see page 31.)

As a result, you will need to:

Step 1 — Determine the difference between new carrying amounts of the assets and liabilities.

Step 2 — Calculate the deferred tax balance.

Step 3 — Compare the deferred tax balance with that already recognised.

Step 4 — Adjust the difference to goodwill or discount on acquisition. (Note that no deferred tax balance can be recognised for goodwill).

Tip: Goodwill

The amount of goodwill is likely to be higher under the new standard. However, if you have to write down the goodwill, it will adversely impact on your profit or loss.

Investments in subsidiaries, branches, associates and interests in joint ventures

Temporary differences may arise from investments in subsidiaries, branches and associates, or interests in joint ventures. Temporary differences may arise from different circumstances including undistributed profits, changes in foreign exchange rates and revaluations.

Deferred tax asset

All deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures should be recognised as a deferred tax asset by an entity to the extent that it is probable that:

• the temporary differences will reverse in the foreseeable future; and

• taxable profit will be available against which the temporary differences can be utilised.

Tip: Deductible Temporary Difference
Where the carrying amount of an investment is lower than its cost base, then there is a deductible temporary difference (represented by a future capital loss). However, unless the investment is expected to be sold, wound up or otherwise disposed of in a manner that allows the realisation of the deductible temporary difference, it may be considered that the temporary difference will not reverse in the foreseeable future. Management's intention to sell should therefore be contemporaneously documented.

Deferred tax liabilities

All taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures should be recognised as a deferred tax liability by an entity, unless both of the following conditions are satisfied:

• the parent, investor or venturer is able to control the timing of the reversal of the temporary differences; and

• it is probable that the temporary differences will not reverse in the foreseeable future.

The recognition exception above reflects the unique measurement issues arising from the way the carrying amount of an investment is expected to be recovered. The alternative ways in which the carrying amount can be recovered include — by way of receipt of franked or exempt foreign dividends or by the sale of the investment.

Tip: Franked dividends
A franked dividend received by a company from its subsidiary is effectively tax neutral to the recipient. This should be taken into account in calculating the taxable temporary difference with respect to the parent's investment in the subsidiary.

Presentation

An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

• has a legally enforceable right to set-off the recognised amounts; and

• intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

• the entity has a legally enforceable right to set-off current tax assets against current tax liabilities; and

• the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The tax expense/(income) related to profit or loss from ordinary activities shall be presented on the face of the income statement.

Disclosure

The major components of tax expense/(income) shall be disclosed separately. Components of tax expense/(income) may include:

•   current tax expense/(income);

•   any adjustments recognised in the period for current tax of prior periods;

•   the amount of deferred tax expense/(income) relating to the origination and reversal of temporary differences;

•   the amount of deferred tax expense/(income) relating to changes in tax rates or the imposition of new taxes;

•   the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;

•   the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;

•   deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with AASB 112; and

•   the amount of tax expense/(income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with AASB 108, because they cannot be accounted for retrospectively.

The following shall also be disclosed separately:

•   the aggregate current and deferred tax relating to items that are charged or credited to equity;

•   an explanation of the relationship between tax expense/ (income) and accounting profit in the following form:

     —   a numerical reconciliation between tax expense/(income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed;

- an explanation of changes in the applicable tax rate(s) compared to the previous reporting period;

- the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;

- the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, for which deferred tax liabilities have not been recognised (see AASB 112);

- in respect of each type of temporary difference, and in respect of each type of unused tax loss and unused tax credit:

    — the amount of the deferred tax assets and liabilities recognised in the Balance sheet for each period presented; and

    — the amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet;

- in respect of discontinued operations, the tax expense relating to:

    — the gain or loss on discontinuance; and

    — the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented; and

    — the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial report was authorised for issue, but are not recognised as a liability in the financial report.

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

Implementation of IFRS

An approach as to how an entity may successfully implement the IFRS is discussed below. The approach comprises an extensive conversion review broken down into separate stages.

It is recommended that all aspects of the conversion be considered by the entity, even if it is believed that a number of issues may not be relevant at this particular stage in the life cycle of the business.

Conversion process

Stage 1 — Analysis

In this phase of the conversion process, an entity needs to consider the potential impact the adoption of Australian equivalents to IFRS will have on the organisation, particularly on its financial systems. An entity should:

• establish project teams;

• create senior management and board awareness;

• determine what resources are required;

• identify staff training needs;

• prepare a timetable prioritising what is required now and what can be delayed and setting manageable deadlines;

• develop a preliminary budget to keep costs under control (where relevant);

• assess impact on the financial reports and system requirements; and

• establish list of key issues and available options for consideration in the design and implementation phase.

Stage 2 — Design

After the analysis has been completed, the entity needs to address the design requirements to update or replace the financial reporting system. Consideration should be given to:

•　　accounting policies and procedures;

•　　reporting systems; and

•　　annual financial statements.

Staff need to be educated and trained to ensure that they have the necessary knowledge and skills to design an appropriate reporting system. If not assistance should be sought from an external adviser.

Once the reporting system has been developed, extensive testing needs to be undertaken to ensure that the reports produced are complete, accurate and compliant. The testing must be undertaken well in advance of the balance date to ensure there is time to make any necessary alterations are made as required by the results of the testing phase.

Stage 3 — Implementation

In this phase of the conversion process, the new reporting system is implemented. The implementation stage includes:

•　　finalising decisions on reporting framework;

•　　rolling out of staff training;

•　　introducing system and business process changes where required;

•　　updating the entity's procedures manuals;

•　　preparing opening balance sheet; and

•　　briefing the board (and the market if required) of reporting impact.

Stage 4 — Monitor

Finally, the results of the implementation process needs to be monitored on an on-going continuous basis and improvements made where considered necessary.

Product overview

The **Tax Effect Accounting Toolkit** has been designed to facilitate the accounting of income taxes in accordance with the **Australian Accounting Standard AASB 112.** The **Tax Effect Accounting Toolkit** automates the process involved in accounting for income taxes under the new standard by compiling the relevant data entered into the worksheets to calculate the required tax balances and to provide the necessary journal entries.

The **Tax Effect Accounting Toolkit** is easy-to-use and has adopted the common features and applications of Microsoft Excel® together with advanced functionality of printing, navigation, search, validation and create/delete functions.

Developed by a team of accounting and tax experts, the main features include:

•   this user guide, providing instructions and technical information, written in plain English for easy comprehension as well as case studies to demonstrate worked examples;

•   a summary page that provides disclosure information to be included in the accounts and the required journal entries;

•   a methodology for the first-time application of AASB 112, including deriving comparative information and opening balances;

•   takes into account recognition or non-recognition of temporary differences;

•   accounts for under/over provision and tax payments;

•   reconciliation worksheet for property, plant and equipment and losses; and

•   validation checks to preserve the integrity of the outputs.

Minimum system requirements

•   IBM-compatible personal computer with Pentium® II or higher processor.

•   64Mb of RAM.

•   Microsoft Office (Excel) 97 or higher.

•   Microsoft Windows 98/NT 4.0/Me/2000/XP operating system with the latest service packs.

•   Microsoft or Microsoft-compatible mouse/pointing device.

•   CD-ROM drive (installation purposes only).

Support

Thomson's Customer Service Team will be pleased to assist you with any questions about installing or using **Tax Effect Accounting Toolkit**. Phone 1300 304 197 Monday to Friday 8.45am to 5.30pm Eastern Standard Time.

Helpline

For further technical assistance regarding the operation of **Tax Effect Accounting Toolkit**, please contact the Moore Stephens Technical Helpline on (03) 9629 4848 Monday to Friday 9.00am to 5.15pm Eastern Standard Time.

Feedback

We appreciate and welcome your feedback on **Tax Effect Accounting Toolkit**. Please email your comments to **LRA.Support@thomson.com**.

Operating instructions

Opening Tax Effect Accounting Toolkit

To open the **Tax Effect Accounting Toolkit**, click **Start | Programs | Thomson | Tax Effect Accounting Toolkit**.

Click **Enable Macros** when prompted to ensure the functionality of **Tax Effect Accounting Toolkit** can be delivered as expected.

Exiting Tax Effect Accounting Toolkit

When exiting **Tax Effect Accounting Toolkit**, you will be asked if you'd like to save the client file. Click **Yes** to save your file or click **No** to exit without saving.

Main menu

When you start the **Tax Effect Accounting Toolkit**, the main menu is displayed.
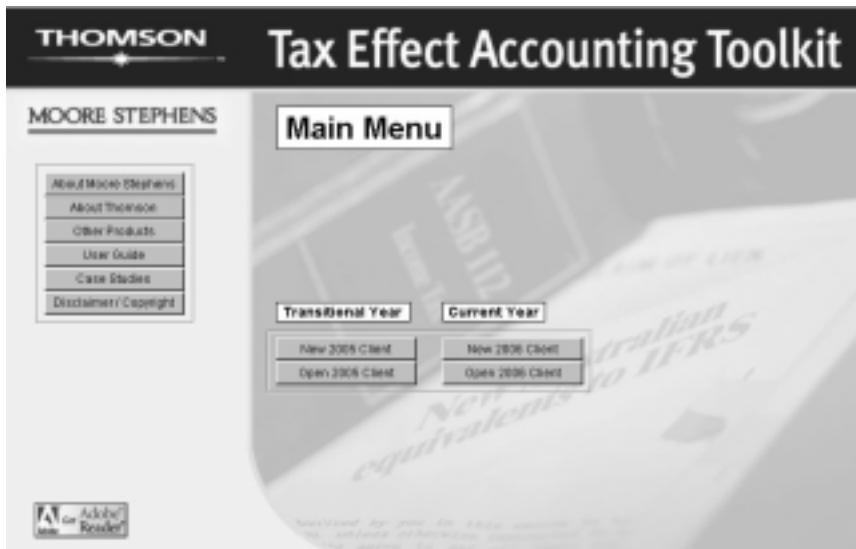
The main menu:

*   Enables you to **create a new client** or **open an existing client** for the **transitional year** or the **current year**.

*   Provides access to this user guide and **other useful information** (see page 84).

Click the **Main Menu** button at any point in **Tax Effect Accounting Toolkit** to return to this main menu or to the opening screen of the client file.

Transitional year

The **Transitional Year** module should be used to determine your comparatives for the commencement year.

For instance, when applying AASB 112 for the first time for the year ended 30 June 2006, use this option to derive the comparatives for the year ended 30 June 2005.

See **Client modules** for a detailed explanation (page 45).

Current year

The **Current Year** module should be used for the years in which AASB 112 is required to be adopted, i.e. for periods commencing on or after 1 January 2005 (e.g. 1 July 2005–30 June 2006).

See **Client modules** for a detailed explanation (page 47).

New client

Click the **New 2005 Client** or the **New 2006 Client** button to create and open a new client file for the transitional year or the current year.

Immediately after creating and opening a new client, we recommend you immediately save the new file using the **Save Client As** button.

Opening an existing client

Click the **Open Client** button to open a previously saved client file for the transitional year or the current year.

The Open file box will be displayed.
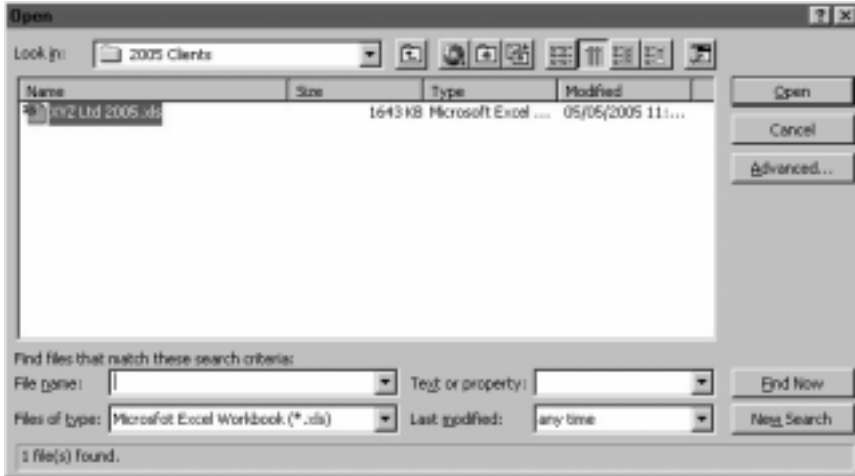
Locate your required file and click **Open**.

The default directory for:

*   Transitional year files is:

    C:\Program Files\Thomson\TEAT 2005\2005 Clients

*   Current year files is:

    C:\Program Files\Thomson\TEAT 2005\2006 Clients

To complete the Tax Effect Accounting Toolkit

Basically, to complete the **Tax Effect Accounting Toolkit**:

1. Complete the transitional year module.

2. Post journals to adjust opening balances.

3. Complete the current year module.

4. Post journals for the current year.

See **Step-by-step workflow** for detailed instructions on completing the **Tax Effect Accounting Toolkit** (page 55).

Client modules

Transitional year module

Application of AASB 112 is required for periods commencing on or after 1 January 2005, i.e. for the year ended 30 June 2006 for a June-balancer.

Importantly, AASB 1 requires that entities restate their comparatives as if AASB 112 had always applied. For simplicity, this example assumes a 30 June balance date.

See **When does the standard apply?** for a detailed explanation (page 3).

Use the **Transitional Year** module to determine the:

•   opening balances (e.g. at 1 July 2004);

•   tax balances for the comparative year (e.g. year ended 30 June 2005); and

•   journal entries to restate the tax balances as at 1 July 2005.
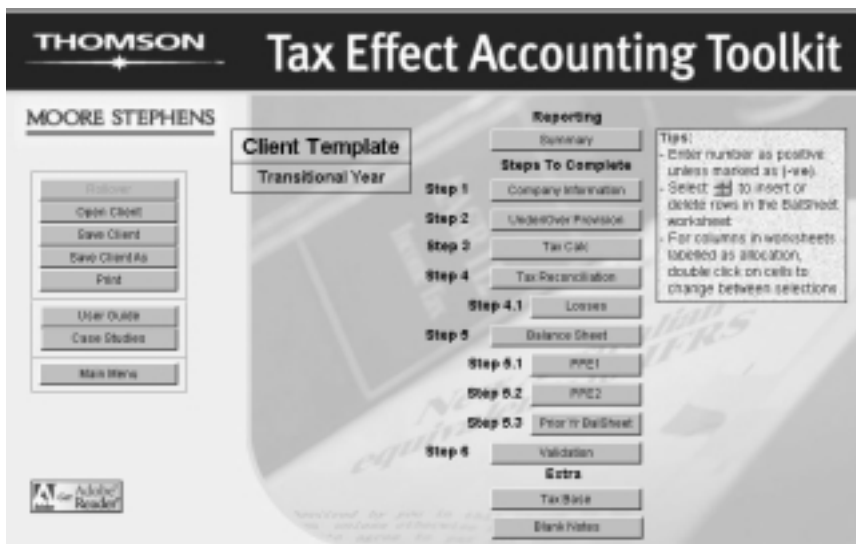
The **Transitional Year** module contains the same worksheets as the **Current Year** module with the exception of:

- the **Summary** tab — it only requires one year's data; and

- the **PriorYrBalSheet** — an additional worksheet to assist with opening balances.

When the **Transitional Year** module has been completed, the data can be rolled over into the **Current Year** module.

See **Rollover** for a detailed explanation (page 48).

Save client as

After creating and opening a new client, we recommend you immediately save the new file using the **Save Client As** button on the **Transitional Year Main Menu**.

You can save your client file into your own directory file structure by navigating to that location after clicking **Save Client As**. However, we recommend you save your **Transitional Year** client files as the client or company name with relevant year and/or version in the following default directory:

- **C:\Program Files\Thomson\TEAT 2005\2005 Clients**

Save client

We also recommend saving your client file at regular intervals to ensure no data is lost by using the **Save Client** button on the **Transitional Year Main Menu**.

Opening an existing client file

To access a previously saved transitional year client file, from the **Transitional Year Main Menu**, click the **Open Client** button.
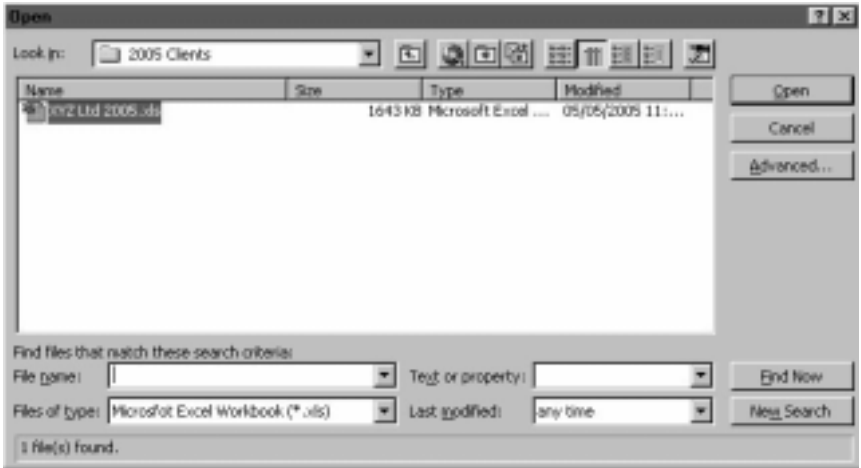
The **Open** file box will be displayed.

Locate your required file and click **Open**.

The default directory for **Transitional Year** files is:

* **C:\Program Files\Thomson\TEAT 2005\2005 Clients**

Current year module
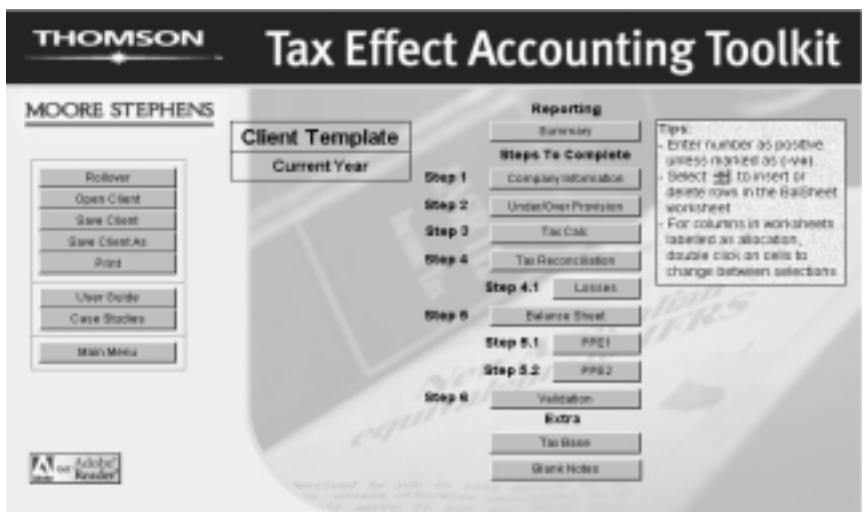
Opening an existing client file

To access a previously saved current year client file, from the **Current Year Main Menu**, click the **Open Client** button.

The **Open** file box will be displayed.
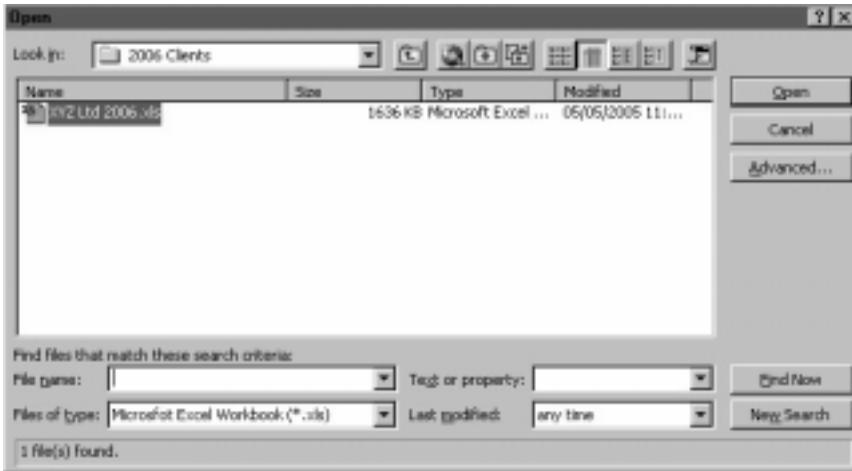
Locate your required file and click **Open**.

The default directory for **Current Year** files is:

• **C:\Program Files\Thomson\TEAT 2005\2006 Clients**

Rollover

The **Current Year** module has a function to roll over the data from a saved **Transitional Year** client file into the **Current Year** file.

From the **Current Year Main Menu**, click the **Rollover** button and the following will be displayed:
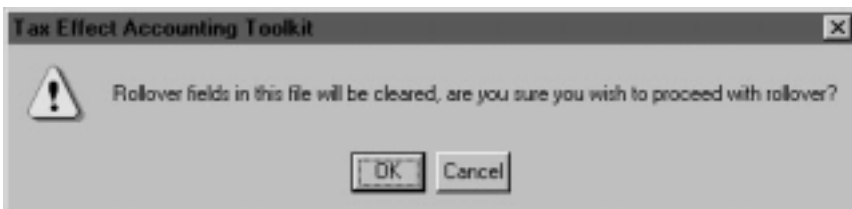
Any existing information in the currently open file will be cleared when the rollover function is used.

To cancel the rollover function, click the **Cancel** button and ensure your current file has been saved.

If you wish to proceed without saving the current file, click the **OK** button. The **Open** file box will be displayed.
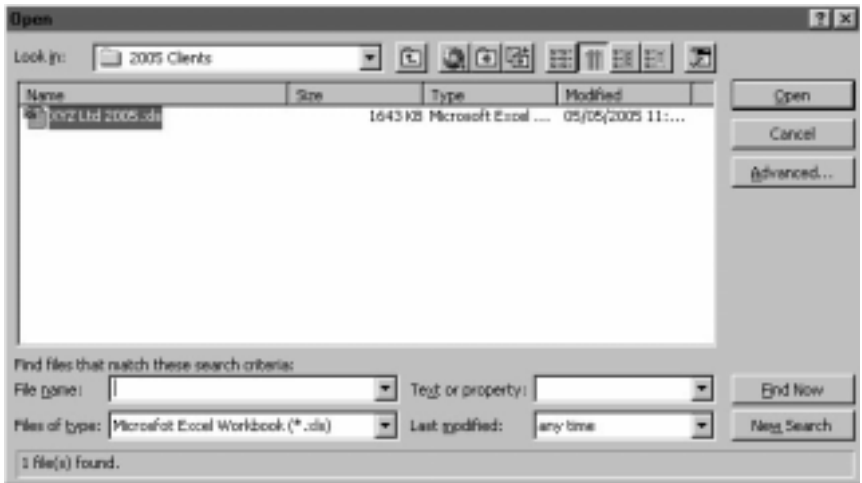
The default directory for **Transitional Year** files is:

- **C:\Program Files\Thomson\TEAT 2005\2005 Clients**

Select the required file and the information will be rolled over and transferred into the **Current Year** client file.

Save client as

After rolling over or opening a new client, we recommend you immediately save the new file using the **Save Client As** button on the **Current Year Main Menu**.

You can save your client file into your own directory file structure by navigating to that location after clicking **Save Client As**. However, we recommend you save your **Current Year** client files as the client or company name with relevant year and/or version in the following default directory:

• **C:\Program Files\Thomson\TEAT 2005\2006 Clients**
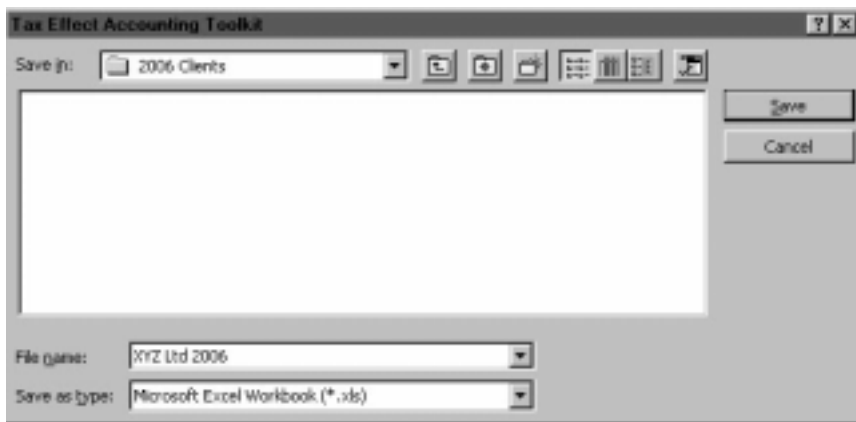
Save client

We also recommend saving your client file at regular intervals to ensure no data is lost by using the **Save Client** button on the **Current Year Main Menu**.

Worksheets

The **Tax Effect Accounting Toolkit** consists of the following worksheets:

•   **Summary** — Summary of results (see page 81).

•   **CoInfo** — Company information (see page 57).

•   **UnderOverProv** — Under/over provision (see page 59).

•   **TaxCalc** — Current tax (payable)/refundable calculation (see page 61).

•   **TaxRec** — Tax reconciliation (Statement of Taxable Income) (see page 63).

•   **Losses** — Revenue/capital losses (see page 66).

•   **BalSheet** — Balance sheet (see page 68).

•   **PPE1** — Property, plant and equipment reconciliation — depreciating assets (see page 71).

•   **PPE2** — Property, plant and equipment reconciliation — non-depreciating assets (including land and buildings) (see page 76).

•   **PriorYrBalSheet** — Prior year balance sheet (transitional year module only) (see page 78).

•   **Valid** — Validation (see page 80).

•   **TaxBase** — Tax base (see page 82).

•   **Notes** — blank notes page to record other information as required (see page 83).

Worksheet functionality

Show all rows

Click the **Show All Rows** button to display any hidden rows previously hidden using the **Hide Unused Rows** button.

Hide unused rows

Click the **Hide Unused Rows** button to hide all rows within the displayed worksheet not being used.

Hidden rows will not display on the screen or on printouts.

Search

Click the **Search** button to search for text on the worksheet currently displayed. The following will appear:
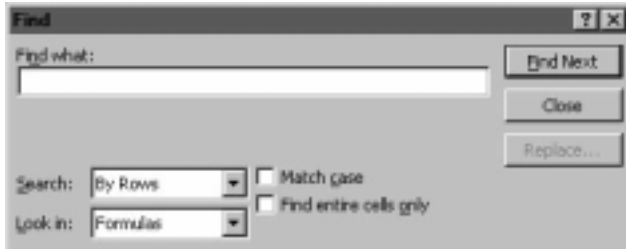
Enter the item/text you want to find in the **Find what** field and click **Find Next**.

Print

Click the **Print** button and the following will appear:
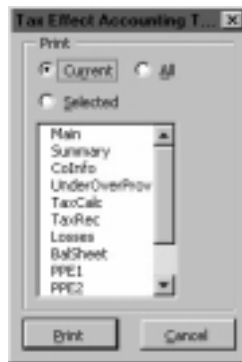
*   **Current** — prints the currently displayed worksheet.

*   **All** — prints all worksheets in the currently open client file.

*   **Selected** — prints worksheets selected from the list displayed below.

To select worksheets, ensure **Selected** is chosen and then using your mouse, click on the worksheet titles you require to be printed.

Click on the worksheet title again to deselect.

Inserting/deleting rows

The **Balance Sheet** (including **Prior Year Balance Sheet**) and **Notes** have the added functionality of enabling you to insert or delete rows as required.

Click the **Up** arrow to delete rows.

Click the **Down** arrow to insert rows.

Blue cells

Cells shaded light blue are locked to maintain the integrity of the formulae and calculations. Figures in these cells calculate automatically through formulae or by transferring data from elsewhere. Data cannot be manually entered into these cells.

Green cells

Cells shaded light green indicates that a selection needs to be made by doubleclicking to display the required item.

A **note** explaining what each option indicates often accompanies **Green** cells (see below).

Yellow cells

Cells shaded yellow indicates compulsory fields.

Blue underlined text and figures/hyperlinks

Blue underlined text and figures are hyperlinks to other sections of the **Tax Effect Accounting Toolkit**, i.e. to the corresponding note, or to another worksheet.

Use these links to navigate quickly to a related location for further information.

Notes

Cells with a red triangle indicate there is a specific explanatory note for that cell or column. To display, hover over the cell with your mouse and the note will appear. Move your mouse away from the cell to close the note display.

Step-by-step workflow

Broadly, the steps required to complete the **Tax Effect Accounting Toolkit** are outlined below:

1.   Collate the 2004, 2005 and 2006 Profit and Loss Statements and Balance Sheets for the entity.

2.   Create a **Transitional Year** file.

3.   **Save** the client file. Client files should be saved at regular intervals.

4.   Complete all information required in **Company Information (CoInfo)**.

5.   Complete the **Prior Year Balance Sheet (PriorYrBalSheet)**. **Note:** If you have inserted rows in this worksheet, ensure that the same description is used for the corresponding rows in the BalSheet worksheet.

6.   Complete the **Under/Over Provision (UnderOverProv)** worksheet to quantify the under/over provision of income tax for the prior income year.

7.   Complete the **Current Tax (Payable)/Refundable Calculation (TaxCalc)** worksheet.

8.   Complete the **Statement of Taxable Income** on **Tax Reconciliation (TaxRec)**. **Note:** This worksheet will derive numbers from the **Losses**, **PPE1** and **PPE2** worksheets.

9.   Where applicable, complete the **Revenue/Capital Losses (Losses)** worksheet.

10.   Enter the accounting carrying amounts and tax bases of the company's assets and liabilities into the **Balance Sheet (BalSheet)**. Use the **Tax Base (TaxBase)** worksheet to calculate the required tax bases.

11.   Enter the relevant information for adjustments relating to depreciating property, plant and equipment in the accounts into the **Property, Plant and Equipment Reconciliation — Depreciating Assets (PPE1)**. Depreciating assets are those that are covered by Division 40 of the *Income Tax Assessment Act 1997*. Depreciating assets excludes buildings and structural improvements covered by Division 43 of the *Income Tax Assessment Act 1997* (use **PPE2** for these assets).

12. Enter the relevant information for adjustments relating to non-depreciating property, plant and equipment in the accounts into the **Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings) (PPE2)**.

13. Check all items without a **Yes** answer on the **Validation (Valid)** sheet.

14. View the **Summary** worksheet to ascertain the current and deferred tax and the necessary journal entries.

15. **Save** the client file.

16. Create a **Current Year** file and use the **rollover** function to transfer the transitional year information into the current year file.

17. Complete steps 4 to 14 in the **Current Year** file with the current year's information.

18. **Print** the completed **Tax Effect Accounting Toolkit** workpapers.

For further technical assistance regarding the operation of **Tax Effect Accounting Toolkit**, please contact the Moore Stephens Technical Helpline on (03) 9629 4848 Monday to Friday 9.00am to 5.15pm Eastern Standard Time.

Company Information (CoInfo)

Click the **Company Information** button on the client file **Main Menu** or the **CoInfo** tab at the bottom of the screen to display the **Company Information** worksheet.

The **Company Information** worksheet requires information relating to the company. The information entered into the **Company Information** worksheet will be used by other worksheets.

Please enter:

- Company name.

- Balance date — the date cannot exceed **1 December 2006** for the **Current Year**, or **1 December 2005** for the **Transitional Year** balance date.

- Tax rates — the following tax rates are required:

    — current year tax percentage,

    — prior year tax percentage; and

    — expected tax rate when temporary differences reverse.

    Note: Deferred tax balances are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and laws that have been enacted or substantively enacted by the reporting date.

    See **Special rules for recognising deferred tax balances** for a detailed explanation (page 32).

- Tax file number — enter number without spaces.

- ACN/ARB — enter number without spaces.

- Company address.

- Contact details.

- Doubleclick the cell to select **Y** in the relevant field if temporary differences are not recognised for:

    — revenue losses;

    — capital losses; and

    — temporary differences on **Balance Sheet** items,

    in the prior year and/or the current year.

    See **Recognition of deferred tax expense** for a detailed explanation (page 31).

- Enter the amounts of opening deferred tax balances. It is important to determine the deferred tax balances on the basis that AASB 112 had always applied.

Under/Over Provision (UnderOverProv)

Click the **Under/Over Provision** button on the client file **Main Menu** or the **UnderOverProv** tab at the bottom of the screen to display the **Under/Over Provision** worksheet.

The objective of the **Under/Over Provision** worksheet is to calculate the under or over provision of income tax from the prior year.

To calculate the under/over provision, complete the following steps:

1.   Enter the amounts for tax adjustments per the **financial accounts** for the prior year.

2.   Enter the amounts for tax adjustments per the **tax return** for the prior year.

3.   Allocate any differences between adjustments that:

   —   would have affected the deferred tax asset balance (e.g. provision for annual leave);

   —   would have affected the deferred tax liability balance (e.g. deductible prepayments); and

   —   do not give rise to temporary differences (e.g. fines, entertainment and goodwill).

   Select an **Allocation Code** by doubleclicking in the **green cell** using the left mouse button to display the correct allocation code.

   1 = Deductible temporary difference

   2 = Assessable temporary difference

   3 = Income tax expense

   Suggested default allocations have been indicated for particular line items, however these can be changed as required by your specific circumstances.

   The difference will then be displayed in the correct **Allocation of Deferred Tax** column.

4.   A calculation check (in the **Check** column on the right) will identify any line items not allocated (**Check**) with an **Allocation Code**. Allocated line items are indicated by **OK**.

The results from this worksheet will transfer to the **TaxCalc** worksheet (see page 61).

Current Tax Calculation (TaxCalc)

Click the **Tax Calc** button on the client file **Main Menu** or the **TaxCalc** tab at the bottom of the screen to display the **Current Tax Calculation** worksheet.

The objective of the **Current Tax Calculation** is to calculate the current tax liability/asset as at the balance date by bringing together:

- tax owing/refundable from prior income years;

- tax payments;

- under or over provision of income tax; and

- current tax.

To calculate the current tax liability/(asset), complete the following steps:

1. Enter the opening prior year tax payable or refundable balance brought forward (per the accounts) and the income tax payments/refunds relating to the relevant prior income year.

2. The balance from the **Under/Over Provision** worksheet will transfer to the under or over provision in this worksheet.

3. Tax payments must be entered in accordance with the year to which the payment relates. For instance, if a tax payment is made in the 2006 income year in relation to the 2005 tax return ($45,252 in the above example), then it must be entered in the 2005 field.

4. Enter PAYG tax instalments paid for the current year.

Once completed, the **Tax Effect Accounting Toolkit** will calculate the current tax payable for the balance date and prior years, which should then be reconciled to your final accounts.

Tip: Tax Owing in Relation to Prior Years

If the worksheet indicates there is tax owing in relation to the prior year(s) (e.g. 30 June 2005) as the end of the current year (30 June 2006), then it is recommended that this be confirmed with correspondence from the Australian Tax Office.

Tax Reconciliation (TaxRec)

Click the **Tax Reconciliation** button on the client file **Main Menu** or the **TaxRec** tab at the bottom of the screen to display the **Tax Reconciliation** worksheet.

The objective of the **Tax Reconciliation** worksheet is to provide a reconciliation from **accounting** profit or loss to **taxable** profit or loss. This worksheet is required to calculate the current tax expense for the year.

The **Tax Reconciliation** worksheet contains an extensive listing of items that may be adjusted against accounting profit or loss to arrive at the taxable income or loss. Although not designed as such, the extensive list also serves as a checklist.

The **Tax Reconciliation** worksheet derives information from the following source worksheets:

- Property, Plant and Equipment Reconciliation — Depreciating Assets (PPE1);

- Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings) (PPE2); and

- Revenue/Capital Losses (Losses).

Accordingly, you will need to complete the relevant sections of the source worksheets in order to complete your **Tax Reconciliation** worksheet.

To calculate the current tax expense, complete the following steps:

1. Enter your figures into the **Amount** column corresponding to the relevant item. Enter the operating profit or loss before tax in the first row of the worksheet and then enter reconciliation items.

   Reconciliation items that increase taxable profit (e.g. non-deductible expenses) are entered as positive and those that reduce taxable profit (e.g. reduction in deductible provisions) are to be entered as (negative).

2. For each reconciliation item, select a **Tax Effect Code** by double-clicking in the **green cell** using the mouse button to display the correct tax effect code.

   1 = Amounts that do not affect the calculation of temporary differences/deferred tax balances. Examples include:

   — fines;

   — entertainment expense; and

   — goodwill/amortisation.

   2 = Temporary differences affecting current tax expense that gives rise to deferred tax. Examples include:

   — movement in deductible provisions;

   — superannuation accrual; and

   — depreciation adjustments.

3 = Items relating to Equity. For example:

—   equity raising costs.

4 = Manual override.

Select manual override to manually allocate the adjustments. This may be required if the reconciliation item is required to be split between two or more of the above options.

Suggested default allocations have been indicated for particular line items, however these can be changed as required by your specific circumstances.

The value of the line item will then be allocated to the corresponding tax effect code column.

3.   A calculation check (in the **Check** column on the right) will identify any line items not allocated (**Check**) with a **Tax Effect Code** (unless the manual override code has been selected). Allocated line items are indicated by **OK**.

Once completed, the **Tax Reconciliation** worksheet will calculate the current tax liability and current tax expense based on the tax rate entered in the **Company Information** worksheet.

Tips: Using the Tax Reconciliation Worksheet

•   Hide any unused rows by clicking the **Hide unused rows** button. It is advisable to use the Hide function when you have fully completed the worksheet.

•   Click the **Show all rows** button to display all rows that were previously hidden.

•   Click the **Search** button to search the worksheet for a reconciliation item.

•   The items marked **A** and **B** on the **Tax Reconciliation** worksheet should reconcile to the corresponding fields (**A1** and **B1**) in the **Balance Sheet**.

Revenue/Capital Losses (Losses)

Click the **Losses** button on the client file **Main Menu** or the **Losses** tab at the bottom of the screen to display the **Revenue/Capital Losses** worksheet.

The objective of the **Revenue/Capital Losses** worksheet is to keep track of the entity's tax losses and to account for recognition/non-recognition of the losses.

Enter the current and prior year revenue and capital losses of the company into the worksheet. This must be completed to allow for and show the recoupment of prior year losses in the **Tax Reconciliation** worksheet.

Complete the following fields (where relevant):

*   **Reported balance** — enter the reported balance for the correct year in the first column. This is the amount of losses carried forward as per the accounts.

*   **Assessed balance** — the assessed balance will equal the reported balance amount by default. Doubleclick the cell if you wish to override and insert a different number. This is the amount of the loss as reported in the tax return.

*   **Recouped** — enter the amount of the loss recouped during the year. This number should be entered in as a negative value.

The total of the recouped amounts will equal the tax losses deducted in the **Tax Reconciliation**.

Balance Sheet (BalSheet)

Click the **Balance Sheet** button on the client file **Main Menu** or the BalSheet
tab at the bottom of the screen to display the **Balance Sheet** worksheet.

The objective of the **Balance Sheet** is to calculate the temporary differences
based on the difference between the carrying amount of assets and liabilities
and their tax base.

The information entered into the **Balance Sheet** will be used by other worksheets:

• Property, Plant and Equipment Reconciliation — Depreciating Assets (PPE1); and

• Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings) (PPE2).

The **Balance Sheet** compares the carrying amount of assets and liabilities with their tax bases and automatically calculates the assessable/deductible temporary differences.

To complete the **Balance Sheet**, complete the following steps:

1. Enter the accounting carrying amount for each asset and liability.

2. Enter the tax base amount for each asset and liability.

Tip: Calculating the Tax Base

To calculate the tax base, click the **note** corresponding to the asset for which the tax base is required (the note is linked to the **Tax Base** worksheet).

The **Tax Base** worksheet provides a description for calculating the tax base of certain assets and liabilities and where applicable, a formula table is available to calculate the tax base of the different category of assets/liabilities. Although the formulas are not contained in AASB 112, they can be used to determine the tax base of assets and liabilities.

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3. Check the recognised assessable/deductible temporary differences from the prior year as per the accounts.

4. Enter the assessable/deductible temporary differences balance as per the tax return.

   This will generally be the same as above. A difference will arise if, for example, a superannuation accrual was recorded as $10,000 when the accounts were finalised but a different amount was added back in the tax return.

5. Enter the amount of temporary difference that is not recognised. Examples include:

   — temporary difference relating to goodwill;

   — cost of motor vehicle exceeding the car limit; and

   — assets transferred in, subject to CGT rollover.

6.   For each item, select an **Allocation of Deferred Tax Code** by doubleclicking in the **green cell** using the left mouse button to display the correct allocation code.

1 = Tax reconciliation adjustment

This is for reconciliation items that affect taxable profit. These will include all reconciliation items from account profit/loss to taxable profit/loss.

2 = Non-tax reconciliation adjustment

The use of this column will be rare. These are items that do not affect taxable profit, e.g. movement in cost base indexation.

3 = Equity

This is for adjustments relating to equity, e.g. a revaluation increment to the asset revaluation reserve.

4 = Manual override

Select manual override to split the amount between two or more of the options above.

Suggested default allocations have been indicated for particular line items, however these can be changed as required by your specific circumstances.

The amount will then be displayed in the corresponding **Allocation of Deferred Tax** column.

7.   A calculation check (in the **Check** column on the right) will identify any line items not allocated (**Check**) with an **Allocation Code** (unless the manual override code has been selected). Allocated line items are indicated by **OK**.

Tips: Using the Balance Sheet Worksheet

•   Insert and delete rows between the different categories of assets and liabilities within the **Balance Sheet** by clicking on the up and down arrows. Then you can type in different types of assets and liabilities in the blank cells.

•   Hide any unused rows by clicking the **Hide unused rows** button. It is advisable to use the Hide function when you have fully completed the worksheet.

•   Click the **Show all rows** button to display all rows that were previously hidden.

•   Click the **Search** button to search the worksheet for an item.

Property, Plant and Equipment Reconciliation — Depreciating Assets (PPE1)

Click the **PPE1** button on the client file **Main Menu** or the **PPE1** tab at the bottom of the screen to display the **Property, Plant and Equipment Reconciliation — Depreciating Assets** worksheet.

The objective of the **Property, Plant and Equipment Reconciliation — Depreciating Assets** worksheet is to provide a systematic approach to reconcile:

- the adjustments relating to depreciating assets in the **Tax Reconciliation** worksheet; and

- the movement in the temporary difference for depreciating assets calculated in the **Balance Sheet**.

A depreciating asset is an asset that has a limited effective life and will decline in value over time. The most common form of depreciating asset is plant and equipment. Division 40 of the *Income Tax Assessment Act 1997* covers these assets. Disposal of depreciating assets is generally outside the capital gains tax regime.

Enter the following information (where relevant):

- Accounting depreciation of motor vehicles above the cost limit — the tax law sets the depreciation cost limit for motor vehicles. The cost limit for 2004/2005 is $57,009. For example, if the cost of a motor vehicle acquired during the year was $100,000, this field should contain the depreciation of $42,991 ($100,000– $57,009).

- Accounting depreciation — other — this is the total accounting depreciation as per the accounts less the above amount.

- Tax depreciation — deduction for decline in value (–ve) (include sec 40–880 deduction and project pool deduction).

- Accounting/book profit on sale of depreciating assets (–ve).

- Accounting/book loss on sale of depreciating assets.

- Tax loss on sale of assets — deductible balancing adjustment (–ve).

- Tax profit on sale of assets — assessable balancing adjustment.

- Revaluations increments (–ve) or decrements (+ve) affecting profit and loss.

- Revaluation increments (–ve) or decrements (+ve) to equity.

- Costs of raising equity deductible under Division 40 (capitalised to equity).

- Immediate deduction for capital expenditure not included in profit/loss (–ve).

- Assets (expensed for book) capitalised for tax purposes — these are amounts that are expensed to the profit and loss but are required to be added back and depreciated for tax purposes.

- Black hole expenditure included in profit/loss that is deductible under Div 40 (other than equity raising costs) — black hole expenditures are amounts that are not deductible for tax purposes and do not form part of the cost base of any assets.

  Section 40–880 lists certain black hole expenditure that can be deducted over five years.

  See **Black hole expenditure** for a detailed explanation (page 74).

- Annual write off under section 40–880 amount previously capitalised (–ve). Use this cell for amounts not already included in tax depreciation.

- Difference in consideration between tax and accounting for luxury car disposal (–ve).

- Non-recognition component for luxury car (first year only) (–ve) — this will be the $42,991 calculated above.

Enter the following **Balance Sheet** reconciliation items:

- Carrying value of depreciating assets — per accounts.

- Amounts not giving rise to temporary differences (–ve) — this includes the carrying amount of the non-deductible component of luxury car cost.

- Tax base (tax written down value) (–ve).

- Undeducted balance of section 40–880 amount (–ve).

The **Net tax reconciliation adjustment (A)** must be equal to the **Movement between the accounting/carrying amount and tax base of depreciating assets (B)**. In the event these amounts are not equal, please check your reconciliation.

Black hole expenditure

Black hole expenditure is capital expenditure (other than certain expenditure incurred by primary producers) that does not form part of the tax cost of an asset, but is allowed to be amortised over a period of time. That period can either be in relation to the life of a project or the life of an underlying asset or over a statutory life.

Section 40–880 of the *Income Tax Assessment Act 1997* allows taxpayers to deduct the following types of expenditure, to the extent that the relevant business is carried on for a taxable purpose:

• business establishment costs;

• business restructuring costs;

• business equity raising costs;

• costs of defending the business against a takeover;

• costs to the business of unsuccessfully attempting a takeover;

• costs of liquidating a company that carried on a business and of which the taxpayer is a shareholder; and

• costs of ceasing to carry on the business.

This expenditure will be deducted over a five-year period on a straight-line basis with no apportionment required for expenditure incurred part way through the year.

The Federal Government has recently announced its intention to extend the above list to a wider range of capital expenditures.

Project pool

Division 40 of the *Income Tax Assessment Act 1997* allows taxpayers to create a project pool for expenses that may represent black hole expenditures.

A project pool deduction is where a taxpayer can deduct certain expenditure (project amount) through a project pool by allocating that amount to the pool. The deduction is calculated, using the diminishing value method, by multiplying the pool value by the fraction that represents 150% divided by diminishing value project pool life.

In general, the following types of capital expenditure will qualify for inclusion in a project pool:

• amounts to create or upgrade community infrastructure;

• amounts for site preparation costs for a depreciating asset other than for horticultural plants and grapevines, expenditure in draining swamp or low-lying land or expenditure in clearing land;

• amounts for feasibility studies for the project;

• amounts for environmental assessments of the project;

• amounts to obtain information associated with the project;

• amounts to obtain a right to intellectual property; and

• amounts for ornamental trees or shrubs.

Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings) (PPE2)

Click the **PPE2** button on the client file **Main Menu** or the **PPE2** tab at the bottom of the screen to display the **Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings)** worksheet.

The objective of the **Property, Plant and Equipment Reconciliation — Non-depreciating Assets (including Land and Buildings)** worksheet is to provide a systematic approach to reconcile items included in property, plant and equipment that are not depreciating assets covered by Division 40 of the *Income Tax Assessment Act 1997,* e.g. buildings and structural improvements are covered by Division 43 of the *Income Tax Assessment Act 1997*.

As a general rule, disposal of such assets are caught by the capital gains tax provisions.

Enter the following information (where relevant):

- Accounting building depreciation.

- Capital works deduction (building write-off) (–ve).

- Accounting profit on sale of assets (–ve).

- Accounting loss on sale of assets.

- Taxable net capital gain on sale of assets (before recoupment of prior year losses).

- Revaluation decrement to profit and loss.

- Revaluation increment affecting profit and loss (–ve).

- Revaluations increments (–ve) and decrements (+ve) not affecting profit and loss.

- Other amounts not affecting profit and loss (e.g. indexation).

Enter the following **Balance Sheet** reconciliation items:

- Carrying value of assets per accounts.

- Amounts included in carrying value not giving rise to temporary differences (e.g. pre-CGT assets, 126–B rollover asset) (–ve).

- Tax base of assets (–ve).

- Adjustments not affecting tax base of assets (e.g. building write-off that does not reduce the tax base of a building).

The **Net tax reconciliation adjustment (A)** must be equal to the **Movement between accounting and tax base of non-depreciating assets (per balance sheet) (B)**. In the event these amounts are not equal, please check your reconciliation.

Prior Year Balance Sheet (PriorYrBalSheet)

Click the **Prior Yr BalSheet** button on the client file **Main Menu** or the **PriorYrBalSheet** tab at the bottom of the screen to display the **Prior Year Balance Sheet** worksheet.

The **Prior Year Balance Sheet** is required to be completed and is only available in the **Transitional Year** module.

The objective of the **Prior Year Balance Sheet** is to calculate the temporary differences based on the difference between the carrying amount of assets and liabilities and their tax base. Please enter:

•   Accounting carrying amount of assets and liabilities as at 1 July 2004.

•   The **Tax Base** of those assets and liabilities.

The worksheet will then calculate the opening deferred tax balances for the transitional/comparative year (i.e. the year ended 30 June 2005). This information is transferred to the **Company Information** worksheet as **Prior year balances**.

Tip: Row Description

If you have inserted rows and entered a description (e.g. Loans XYZ Sub Ltd), then ensure that the same description is entered when completing the BalSheet worksheet.

Validation (Valid)

Click the **Validation** button on the client file **Main Menu** or the **Valid** tab at the bottom of the screen to display the **Validation** worksheet.

The objective of the **Validation** worksheet is to provide a means of checking whether all required information has been entered into the appropriate worksheets and that the relevant values reconcile.

If there is **Yes** in the **Complete?** column then all information has been entered correctly and the appropriate balances reconcile.

If there is **Check** in the **Complete?** column then there may be information missing or the relevant balances may not reconcile and you should check the corresponding worksheet.

Reviewers should ensure all fields are marked as **Yes** and items marked as **Check** are followed up. Use the tick box to indicate the **Check** items have been followed up.

Summary of Results (Summary)

Click the **Summary** button on the client file **Main Menu** or the **Summary** tab at the bottom of the screen to display the **Summary of Results** worksheet.

The objective of the **Summary of Results** worksheet is to collate all the information from other worksheets and provide a summary of the balances required to be disclosed under AASB 112.

AASB 112 contains extensive disclosure requirements. Where the information is not available from the **Summary of Results** worksheet, they should be able to be derived from the other worksheets.

A key feature of the **Tax Effect Accounting Toolkit** is that it provides the required journal entries. The **Other** row in the journals table allows you to amend the final journal entries, if required, for example to offset deferred tax balances.

Tax Base (TaxBase)

Click the **Tax Base** button on the client file **Main Menu** or the **TaxBase** tab at the bottom of the screen to display the **Tax Base** worksheet.

The objective of the **Tax Base** worksheet is to provide a description and means for calculating the tax base of certain assets and liabilities.

Where applicable, a formula table is available to calculate the tax base of the different category of assets/liabilities. Although the formulas (based on the 1999 version of AASB 1020) are not contained in AASB 112, they can be used to calculate the tax base of assets and liabilities.

Each note is linked to the corresponding asset or liability section of the **Balance Sheet**.

Blank Notes (Notes)

Click the **Blank Notes** button on the client file **Main Menu** or the **Notes** tab at the bottom of the screen to display the **Blank Notes** worksheet.

The objective of the **Blank Notes** worksheet is to store information or details that will be useful for future reference, e.g. you may want to leave a note identifying that certain assets are pre-CGT assets or a particular vehicle is a luxury motor vehicle.

Each worksheet is linked to the **Blank Notes** worksheet. Additional information and/or notes may be entered in the **Blank Notes** worksheet. This information will be carried forward each year.

You can insert extra and delete empty rows using the **Insert row** and **Delete row** buttons.

Assistance and useful information

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