The deferred tax consequences will be as follows:

Year 1					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Inventory	R90 000	R 90 000[1]	–	–	–
Accounts payable	R100 000	R100 000[2]	–	–	–

1 The closing inventory on hand at the end of year 1 will be deductible as opening stock (section 22(2)) for tax purposes against future taxable economic benefits when the carrying amount of the inventory is recovered.

2 The tax base of accounts payable is its carrying amount of R100 000, less any amount that will be deductible for tax purposes in respect of that liability in future periods (nil; section 11(a) deduction already allowed in year 1).

Year 2					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Inventory	R45 000	–[1]	R45 000	R12 600[2]	R12 600[2]
Accounts payable	R20 000[3]	R20 000	–	–	–

The deferred tax consequences will be as follows:

Year 1					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Machine	R83 333	R60 000[1]	R23 333	R6 533[2]	R6 533[3]
Accounts payable	R100 000	R100 000	–	–	–

1 The tax base of the machine is the remaining R60 000 capital allowances that will be deductible for tax purposes against any future taxable economic benefits of the entity when it recovers the carrying amount of the machine.

2 The carrying amount of the depreciable machine will be recovered through the use of the machine, which will generate taxable profits. The entity will measure the deferred tax liability at the normal corporate tax rate.

3 The resultant deferred tax movement (expense) is recognised in profit or loss; in the same way the transaction was recognised.

Year 2					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Machine	R66 667	R15 000[1]	R51 667	R14 467[2]	R14 467
Accounts payable	R75 000	R75 000	–	–	–

1 The tax base of the machine is the remaining R40 000 capital allowances that will be deductible for future tax purposes against any taxable economic benefits of the entity when it recovers the carrying amount of the machine, reduced with the debt reduction of R25 000 in terms of paragraph 12A of the Eighth Schedule.

2 The R14 467 consists of the sum of the temporary differences at the normal corporate tax rate due to the difference in depreciation (R33 333) and the wear-and-tear allowance (R60 000) as well as the temporary difference of R25 000 on the waiver.

in respect of a non-depreciable asset

Co C acquired land at R300 000 on credit during year 1 for capital appreciation purposes. Co C accounts for land in accordance with the revaluation model. The first and only revaluation occurred on the last day of year 1. Land was revalued upwards with R120 000. Owing to Co C's inability to pay, the supplier discharges R70 000 of the debt owed to the supplier during year 2.

The deferred tax consequences will be as follows:

Year 1					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Land	R420 000	R300 000[1]	R120 000	R22 378[2]	R22 378[3]
Accounts payable	R300 000	R300 000	–	–	–

1 SARS does not recognise revaluations when determining the tax base of an asset. According to IAS 12.15B, the manner of recovery of a revalued, non-depreciable asset such as land is through sale. Therefore the tax base of land is its base cost that will be allowed as a deduction against the proceeds to determine the capital gain when the asset is sold.

2 Recognise the deferred tax liability at the effective capital gains tax rate.

3 The resultant deferred tax movement (expense) is recognised in SOCI; in the same manner as the revaluation was recognised.

Year 2					
Asset/liability	Carrying amount	Tax base	Temporary difference	Deferred tax (SFP)	Income tax (SOCI)
Land	R420 000	R230 000[1]	R190 000	R35 431	R35 431
Accounts payable	R230 000	R230 000	–	–	–

1 The tax base of land is its base cost that will be allowed as a deduction against the proceeds to determine the capital gain when the asset is sold. The base cost of the asset should first be reduced with the debt reduction amount in terms of paragraph 12A of the Eighth Schedule.