Indian Accounting Standard (Ind AS) 12

Income Taxes

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1. Comparison with IAS 12, *Income Taxes*

Indian Accounting Standard (Ind AS) 12

Income Taxes

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's balance sheet; and

transactions and other events of the current period that are recognised in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognise a deferred tax liability (deferred tax asset), with certain limited exceptions.

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

This Standard also deals with the recognition of deferred tax assets arising from unused tax losses or unused tax credits, the presentation of income taxes in

the financial statements and the disclosure of information relating to income taxes.

Scope

1 **This Standard shall be applied in accounting for income taxes.**

2 For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

3 [Refer to Appendix 1]

4 This Standard does not deal with the methods of accounting for government grants (see Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*) or investment tax credits. However, this Standard does deal with the accounting for temporary differences that may arise from such grants or investment tax credits.

Definitions

5 **The following terms are used in this Standard with the meanings specified:**

Accounting profit **is profit or loss for a period before deducting tax expense.**

Taxable profit (tax loss) **is 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 expense (tax income) **is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.**

Current tax **is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.**

Deferred tax liabilities **are the amounts of income taxes payable in future periods in respect of taxable temporary differences.**

Deferred tax assets **are the amounts of income taxes recoverable in future periods in respect of:**

(a) **deductible temporary differences;**

(b) **the carryforward of unused tax losses; and**

(c) **the carryforward of unused tax credits.**

Temporary differences **are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:**

(a) *taxable temporary differences*, **which are 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; or**

(b) *deductible temporary differences*, **which are 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.**

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

6 Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

Tax base

7 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. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

Examples

1 A machine cost Rs 100. For tax purposes, depreciation of Rs 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. *The tax base of the machine is Rs 70*.

2 Interest receivable has a carrying amount of Rs 100. The related interest revenue will be taxed on a cash basis. *The tax base of the interest receivable is nil*.

3 Trade receivables have a carrying amount of Rs 100. The related revenue has already been included in taxable profit (tax loss). *The tax base of the trade receivables is Rs 100*.

4 Dividends receivable from a subsidiary have a carrying amount of Rs 100. The dividends are not taxable. *In substance, the entire carrying amount of the asset is deductible against the economic benefits. Consequently, the tax base of the dividends receivable is Rs 100.*[(a)]

5 A loan receivable has a carrying amount of Rs 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs 100*.

(a) Under this analysis, there is no taxable temporary difference. An alternative analysis is that the accrued dividends receivable have a tax base of nil and that a tax rate of nil is applied to

the resulting taxable temporary difference of Rs 100. Under both analyses, there is no deferred tax liability.

8 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. 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.

Examples

Current liabilities include accrued expenses with a carrying amount of Rs 100. The related expense will be deducted for tax purposes on a cash basis. *The tax base of the accrued expenses is nil*.

Current liabilities include interest revenue received in advance, with a carrying amount of Rs 100. The related interest revenue was taxed on a cash basis. *The tax base of the interest received in advance is nil*.

Current liabilities include accrued expenses with a carrying amount of Rs 100. The related expense has already been deducted for tax purposes. *The tax base of the accrued expenses is Rs 100*.

Current liabilities include accrued fines and penalties with a carrying amount of Rs 100. Fines and penalties are not deductible for tax purposes. *The tax base of the accrued fines and penalties is Rs 100*.[(b)]

A loan payable has a carrying amount of Rs 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs 100*.

(b) Under this analysis, there is no deductible temporary difference. An alternative analysis is that the accrued fines and penalties payable have a tax base of nil and that a tax rate of nil is applied to the resulting deductible temporary difference of Rs 100. Under both analyses, there is no deferred tax asset.

9 Some items have a tax base but are not recognised as assets and liabilities in the balance sheet. For example, preliminary expenses are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period(s). The difference between the tax base of the preliminary expenses, being the amount permitted as a deduction in future periods under taxation laws, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset.

10 Where the tax base of an asset or liability is not immediately apparent, it is helpful to consider the fundamental principle upon which this Standard is based: 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. Example C following paragraph 52 illustrates circumstances when it may be helpful to consider this fundamental principle, for example, when the tax base of an asset or liability depends on the expected manner of recovery or settlement.

11 The tax base is determined by reference to the tax returns of each entity in the group. In some jurisdictions, in consolidated financial statements, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed.

Recognition of current tax liabilities and current tax assets

12 **Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.**

13 **The benefit relating to a tax loss that can be carried back to recover current tax of a previous period shall be recognised as an asset.**

14 When a tax loss is used to recover current tax of a previous period, an entity recognises the benefit as an asset in the period in which the tax loss occurs because it is probable that the benefit will flow to the entity and the benefit can be reliably measured.

Recognition of deferred tax liabilities and deferred tax assets

Taxable temporary differences

15 **A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:**

(a) **the initial recognition of goodwill; or**

(b) **the initial recognition of an asset or liability in a transaction which:**

(i) **is not a business combination; and**

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

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 39.

16 It is inherent in the recognition of an asset that its carrying amount will be recovered in the form of economic benefits that flow to the entity in future periods. When the carrying amount of the asset exceeds its tax base, the amount of taxable economic benefits will exceed the amount that will be allowed as a deduction for tax purposes. This difference is a taxable temporary difference and the obligation to pay

the resulting income taxes in future periods is a deferred tax liability. As the entity recovers the carrying amount of the asset, the taxable temporary difference will reverse and the entity will have taxable profit. This makes it probable that economic benefits will flow from the entity in the form of tax payments. Therefore, this Standard requires the recognition of all deferred tax liabilities, except in certain circumstances described in paragraphs 15 and 39.

Example
An asset which cost Rs 150 has a carrying amount of Rs 100. Cumulative depreciation for tax purposes is Rs 90 and the tax rate is 25%. *The tax base of the asset is Rs 60 (cost of Rs 150 less cumulative tax depreciation of Rs 90). To recover the carrying amount of Rs 100, the entity must earn taxable income of Rs 100, but will only be able to deduct tax depreciation of Rs 60. Consequently, the entity will pay income taxes of Rs 10 (Rs 40 at 25%) when it recovers the carrying amount of the asset. The difference between the carrying amount of Rs 100 and the tax base of Rs 60 is a taxable temporary difference of Rs 40. Therefore, the entity recognises a deferred tax liability of Rs 10 (Rs 40 at 25%) representing the income taxes that it will pay when it recovers the carrying amount of the asset.*

17 Some temporary differences arise when income or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as timing differences. The following are examples of temporary differences of this kind which are taxable temporary differences and which therefore result in deferred tax liabilities:

(a) interest revenue is included in accounting profit on a time proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable recognised in the balance sheet with respect to such revenues is nil because the revenues do not affect taxable profit until cash is collected;

(b) depreciation used in determining taxable profit (tax loss) may differ from that used in determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base which is the original cost of the asset less all deductions in respect of that asset permitted under taxation laws in determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated (if tax depreciation is less rapid than accounting depreciation, a deductible temporary difference arises, and results in a deferred tax asset); and

(c) development costs may be capitalised and amortised over future periods in determining accounting profit but deducted in determining taxable profit in the period in which they are incurred. Such development costs have a tax base of nil as they have already been deducted from taxable profit. The temporary difference is the difference between the carrying amount of the development costs and their tax base of nil.

18 Temporary differences also arise when:

(a) the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with Ind AS 103 *Business Combinations*, but no equivalent adjustment is made for tax purposes (see paragraph 19);

(b) assets are revalued and no equivalent adjustment is made for tax purposes (see paragraph 20);

(c) goodwill arises in a business combination (see paragraph 21);

(d) the tax base of an asset or liability on initial recognition differs from its initial carrying amount, for example when an entity benefits from non-taxable government grants related to assets (see paragraphs 22 and 33); or

(e) the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures becomes different from the tax base of the investment or interest (see paragraphs 38–45).

Business combinations

19 With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill (see paragraph 66).

Assets carried at fair value

20 Indian Accounting Standards permit or require certain assets to be carried at fair value or to be revalued (see, for example, Ind AS 16 *Property, Plant and Equipment*, Ind AS 38 *Intangible Assets* and Ind AS 39 *Financial Instruments: Recognition and Measurement.*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. Nevertheless, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset. This is true even if:

(a) the entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and

this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or

(b) tax on capital gains is deferred if the proceeds of the disposal of the asset are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.

Goodwill

21 Goodwill arising in a business combination is measured as the excess of (a) over (b) below:

the aggregate of:

(i) the consideration transferred measured in accordance with Ind AS 103, which generally requires acquisition-date fair value;

(ii) the amount of any non-controlling interest in the acquiree recognised in accordance with Ind AS 103; and

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with Ind AS 103.

Many jurisdictions do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this Standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill.

21A Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a). For example, if in a business combination an entity recognises goodwill of Rs 100 that has a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability. If the entity subsequently recognises an impairment loss of Rs 20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from Rs 100 to Rs 80, with a resulting decrease in the value of the unrecognised deferred tax liability. That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a).

21B Deferred tax liabilities for taxable temporary differences relating to goodwill are, however, recognised to the extent they do not arise from the initial recognition of goodwill. For example, if in a business combination an entity recognises goodwill of Rs 100 that is deductible for tax purposes at a rate of 20 per cent per year starting in the year of acquisition, the tax base of the goodwill is Rs 100 on initial recognition and Rs 80 at the end of the year of acquisition. If the carrying amount of goodwill at the end of the year of acquisition remains unchanged at Rs 100, a taxable temporary difference of Rs 20 arises at the end of that year. Because that taxable temporary difference does not relate to the initial recognition of the goodwill, the resulting deferred tax liability is recognised.

Initial recognition of an asset or liability

22 A temporary difference may arise on initial recognition of an asset or liability, for example if part or all of the cost of an asset will not be deductible for tax purposes. The method of accounting for such a temporary difference depends on the nature of the transaction that led to the initial recognition of the asset or liability:

(a) in a business combination, an entity recognises any deferred tax liability or asset and this affects the amount of goodwill or bargain purchase gain it recognises (see paragraph 19);

(b) if the transaction affects either accounting profit or taxable profit, an entity recognises any deferred tax liability or asset and recognises the resulting deferred tax expense or income in profit or loss (see paragraph 59);

(c) if the transaction is not a business combination, and affects neither accounting profit nor taxable profit, an entity would, in the absence of the exemption provided by paragraphs 15 and 24, recognise the resulting deferred tax liability or asset and adjust the carrying amount of the asset or liability by the same amount. Such adjustments would make the financial statements less transparent. Therefore, this Standard does not permit an entity to recognise the resulting deferred tax liability or asset, either on initial recognition or subsequently (see example below). Furthermore, an entity does not recognise subsequent changes in the unrecognised deferred tax liability or asset as the asset is depreciated.

Example illustrating paragraph 22(c)
An entity intends to use an asset which cost Rs 1,000 throughout its useful life of five years and then dispose of it for a residual value of nil. The tax rate is 40%. Depreciation of the asset is not deductible for tax purposes. On disposal, any capital gain would not be taxable and any capital loss would not be deductible. *As it recovers the carrying amount of the asset, the entity will earn taxable income of Rs 1,000 and pay tax of Rs 400. The entity does not*

recognise the resulting deferred tax liability of Rs 400 because it results from the initial recognition of the asset.

In the following year, the carrying amount of the asset is Rs 800. In earning taxable income of Rs 800, the entity will pay tax of Rs 320. The entity does not recognise the deferred tax liability of Rs 320 because it results from the initial recognition of the asset.

23 In accordance with Ind AS 32 *Financial Instruments: Presentation* the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument's liability component as a liability and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component. Therefore, the exception set out in paragraph 15(b) does not apply. Consequently, an entity recognises the resulting deferred tax liability. In accordance with paragraph 61A, the deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in profit or loss as deferred tax expense (income).

Deductible temporary differences

24 **A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:**

is not a business combination; and

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

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 44.

25 It is inherent in the recognition of a liability that the carrying amount will be settled in future periods through an outflow from the entity of resources embodying economic benefits. When resources flow from the entity, part or all of their amounts may be deductible in determining taxable profit of a period later than the period in which the liability is recognised. In such cases, a temporary difference exists between the carrying amount of the liability and its tax base. Accordingly, a deferred tax asset arises in respect of the income taxes that will be recoverable in the future periods when that part of the liability is allowed as a deduction in determining taxable profit. Similarly, if the carrying amount of an asset is less than its tax base, the difference gives rise to a deferred tax asset in respect of the income taxes that will be recoverable in future periods.

Example

An entity recognises a liability of Rs 100 for gratuity and leave encashment expenses by creating a provision for gratuity and leave encashment. For tax purposes, any amount with regard to gratuity and leave encashment will not be deductible until the entity pays the same. The tax rate is 25%.

The tax base of the liability is nil (carrying amount of Rs 100, less the amount that will be deductible for tax purposes in respect of that liability in future periods). In settling the liability for its carrying amount, the entity will reduce its future taxable profit by an amount of Rs 100 and, consequently, reduce its future tax payments by Rs 25 (Rs 100 at 25%). The difference between the carrying amount of Rs 100 and the tax base of nil is a deductible temporary difference of Rs 100. Therefore, the entity recognises a deferred tax asset of Rs 25 (Rs 100 at 25%), provided that it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments.

26 The following are examples of deductible temporary differences that result in deferred tax assets:

(a) retirement benefit costs may be deducted in determining accounting profit as service is provided by the employee, but deducted in determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset as economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid;

(b) preliminary expenses are recognised as an expense in determining accounting profit in the period in which they are incurred but may not be permitted as a deduction in determining taxable profit (tax loss) until a later period(s). The difference between the tax base of the preliminary expenses, being the amount permitted as a deduction in future periods under taxation laws, and the carrying amount of nil is a deductible temporary difference that results in a deferred tax asset;

(c) with limited exceptions, an entity recognises the identifiable assets acquired and liabilities assumed in a business combination at their fair values at the acquisition date. When a liability assumed is recognised at the acquisition date but the related costs are not deducted in determining taxable profits until a later period, a deductible temporary difference arises which results in a deferred tax asset. A deferred tax asset also arises when the fair value of an identifiable asset acquired is less than its tax base. In both cases, the resulting deferred tax asset affects goodwill (see paragraph 66); and

(d) certain assets may be carried at fair value, or may be revalued, without an equivalent adjustment being made for tax purposes (see paragraph 20). A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

27 The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

28 It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse:

(a) in the same period as the expected reversal of the deductible temporary difference; or

(b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

29 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

(a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised; or

(b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

30 Tax planning opportunities are actions that the entity would take in order to create or increase taxable income in a particular period before the expiry of a tax loss or tax credit carryforward. For example, in some jurisdictions, taxable profit may be created or increased by:

(a) electing to have interest income taxed on either a received or receivable basis;

(b) deferring the claim for certain deductions from taxable profit;

(c) selling, and perhaps leasing back, assets that have appreciated but for which the tax base has not been adjusted to reflect such appreciation; and

(d) selling an asset that generates non-taxable income (such as, in some jurisdictions, a government bond) in order to purchase another investment that generates taxable income.

Where tax planning opportunities advance taxable profit from a later period to an earlier period, the utilisation of a tax loss or tax credit carryforward still depends on the existence of future taxable profit from sources other than future originating temporary differences.

31 When an entity has a history of recent losses, the entity considers the guidance in paragraphs 35 and 36.

32 [Refer to Appendix 1]

Goodwill

32A If the carrying amount of goodwill arising in a business combination is less than its tax base, the difference gives rise to a deferred tax asset. The deferred tax asset arising from the initial recognition of goodwill shall be recognised as part of the accounting for a business combination to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilised.

Initial recognition of an asset or liability

33 One case when a deferred tax asset arises on initial recognition of an asset is when a non-taxable government grant related to an asset is set up as deferred income in which case the difference between the deferred income and its tax base of nil is a deductible temporary difference. In this case, the entity does not recognise the resulting deferred tax asset, for the reason given in paragraph 22.

Unused tax losses and unused tax credits

34 **A deferred tax asset shall be recognised for the carryforward 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.**

35 The criteria for recognising deferred tax assets arising from the carryforward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition.

36 An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised:

(a) 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;

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

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

(d) whether tax planning opportunities (see paragraph 30) 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.

To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Reassessment of unrecognised deferred tax assets

37 At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For example, an improvement in trading conditions may make it more probable that the entity will be able to generate sufficient taxable profit in the future for the deferred tax asset to meet the recognition criteria set out in paragraph 24 or 34. Another example is when an entity reassesses deferred tax assets at the date of a business combination or subsequently (see paragraphs 67 and 68).

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

38 Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:

(a) the existence of undistributed profits of subsidiaries, branches, associates and joint ventures;

(b) changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

(c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

39 **An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:**

(a) **the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and**

(b) **it is probable that the temporary difference will not reverse in the foreseeable future.**

40 As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches.

41 The non-monetary assets and liabilities of an entity are measured in its functional currency (see Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*). If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or (subject to paragraph 24) asset. The resulting deferred tax is charged or credited to profit or loss (see paragraph 58).

42 An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. Therefore, in the absence of an agreement requiring that the profits of the associate will not be distributed in the foreseeable future, an investor recognises a deferred tax liability arising from taxable temporary differences associated with its investment in the associate. In some cases, an investor may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount. In such cases, the deferred tax liability is measured at this amount.

43 The arrangement between the parties to a joint venture usually deals with the sharing of the profits and identifies whether decisions on such matters require the consent of all the venturers or a specified majority of the venturers. When the venturer can control the sharing of profits and it is probable that the profits will not be distributed in the foreseeable future, a deferred tax liability is not recognised.

44 **An entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, to the extent that, and only to the extent that, it is probable that:**

(a) the temporary difference will reverse in the foreseeable future; and

(b) taxable profit will be available against which the temporary difference can be utilised.

45 In deciding whether a deferred tax asset is recognised for deductible temporary differences associated with its investments in subsidiaries, branches and associates, and its interests in joint ventures, an entity considers the guidance set out in paragraphs 28 to 31.

Measurement

46 **Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.**

47 **Deferred tax assets and liabilities shall be 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 tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.**

48 Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

49 When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.

50 [Refer to Appendix 1]

51 **The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.**

52 In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

(a) the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

(b) the tax base of the asset (liability).

In such cases, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

Example A

An asset has a carrying amount of Rs 100 and a tax base of Rs 60. A tax rate of 20% would apply if the asset were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of Rs 8 (Rs 40 at 20%) if it expects to sell the asset without further use and a deferred tax liability of Rs 12 (Rs 40 at 30%) if it expects to retain the asset and recover its carrying amount through use.

Example B

An asset with a cost of Rs 100 and a carrying amount of Rs 80 is revalued to Rs 150. No equivalent adjustment is made for tax purposes. Cumulative depreciation for tax purposes is Rs 30 and the tax rate is 30%. If the asset is sold for more than cost, the cumulative tax depreciation of Rs 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

The tax base of the asset is Rs 70 and there is a taxable temporary difference of Rs 80. If the entity expects to recover the carrying amount by using the asset, it must generate taxable income of Rs 150, but will only be able to deduct depreciation of Rs 70. On this basis, there is a deferred tax liability of Rs 24 (Rs 80 at 30%). If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of Rs 150, the deferred tax liability is computed as follows:

	Taxable Temporary Difference (Amount in Rs)	*Tax Rate*	*Deferred Tax Liability (Amount in Rs)*
Cumulative tax depreciation	*30*	*30%*	*9*
Proceeds in excess of cost	*50*	*nil*	*-*
Total	*80*		*9*

(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)

Example C
The facts are as in example B, except that if the asset is sold for more than cost, the cumulative tax depreciation will be included in taxable income (taxed at 30%) and the sale proceeds will be taxed at 40%, after deducting an inflation-adjusted cost of Rs 110. *If the entity expects to recover the carrying amount by using the asset, it must generate taxable income of Rs 150, but will only be able to deduct depreciation of Rs 70. On this basis, the tax base is Rs 70, there is a taxable temporary difference of Rs 80 and there is a deferred tax liability of Rs 24 (Rs 80 at 30%), as in example B.* *If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of Rs 150, the entity will be able to deduct the indexed cost of Rs 110. The net proceeds of Rs 40 will be taxed at 40%. In addition, the cumulative tax depreciation of Rs 30 will be included in taxable income and taxed at 30%. On this basis, the tax base is Rs 80 (Rs 110 less Rs 30), there is a taxable temporary difference of Rs 70 and there is a deferred tax liability of Rs 25 (Rs 40 at 40% plus Rs 30 at 30%). If the tax base is not immediately apparent in this example, it may be helpful to consider the fundamental principle set out in paragraph 10.* *(note: in accordance with paragraph 61A, the additional deferred tax that arises on the revaluation is recognised in other comprehensive income)*

52A In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

52B In the circumstances described in paragraph 52A, the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised. The income tax consequences of dividends are more directly linked to past transactions or events than to distributions to owners. Therefore, the income tax consequences of dividends are recognised in profit or loss for the period as required by paragraph 58 except to the extent that the income tax consequences of dividends arise from the circumstances described in paragraph 58(a) and (b).

Example illustrating paragraphs 52A and 52B
The following example deals with the measurement of current and deferred tax assets and liabilities for an entity in a jurisdiction where income taxes are payable at a higher rate on undistributed profits (50%) with an amount being refundable when profits are distributed. The tax rate on distributed profits is 35%. At the end of the reporting period, 31 December 20X1, the entity does not recognise a liability for dividends proposed or declared after the reporting period. As a result, no dividends are recognised in the year 20X1. Taxable income for 20X1 is Rs 100,000. The net taxable temporary difference for the

year 20X1 is Rs 40,000.

The entity recognises a current tax liability and a current income tax expense of Rs 50,000. No asset is recognised for the amount potentially recoverable as a result of future dividends. The entity also recognises a deferred tax liability and deferred tax expense of Rs 20,000 (Rs 40,000 at 50%) representing the income taxes that the entity will pay when it recovers or settles the carrying amounts of its assets and liabilities based on the tax rate applicable to undistributed profits.

Subsequently, on 15 March 20X2 the entity recognises dividends of Rs 10,000 from previous operating profits as a liability.

On 15 March 20X2, the entity recognises the recovery of income taxes of Rs 1,500 (15% of the dividends recognised as a liability) as a current tax asset and as a reduction of current income tax expense for 20X2.

53 **Deferred tax assets and liabilities shall not be discounted.**

54 The reliable determination of deferred tax assets and liabilities on a discounted basis requires detailed scheduling of the timing of the reversal of each temporary difference. In many cases such scheduling is impracticable or highly complex. Therefore, it is inappropriate to require discounting of deferred tax assets and liabilities. To permit, but not to require, discounting would result in deferred tax assets and liabilities which would not be comparable between entities. Therefore, this Standard does not require or permit the discounting of deferred tax assets and liabilities.

55 Temporary differences are determined by reference to the carrying amount of an asset or liability. This applies even where that carrying amount is itself determined on a discounted basis, for example in the case of retirement benefit obligations (see Ind AS 19 *Employee Benefits*).

56 **The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset 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 that deferred tax asset to be utilised. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.**

Recognition of current and deferred tax

57 Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 58 to 68C implement this principle.

Items recognised in profit or loss

58 **Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:**

(a) a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity (see paragraphs 61A to 65); or

(b) a business combination (see paragraphs 66 to 68).

59 Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in profit or loss. Examples are when:

(a) interest, royalty or dividend revenue is received in arrears and is included in accounting profit on a time apportionment basis in accordance with Ind AS 18 *Revenue*, but is included in taxable profit (tax loss) on a cash basis; and

(b) costs of intangible assets have been capitalised in accordance with Ind AS 38 and are being amortised in profit or loss, but were deducted for tax purposes when they were incurred.

60 The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

a change in tax rates or tax laws;

a reassessment of the recoverability of deferred tax assets; or

a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss (see paragraph 63).

Items recognised outside profit or loss

61 [Refer to Appendix 1]

61A Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

(a) **in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).**

(b) **directly in equity, shall be recognised directly in equity (see paragraph 62A).**

62 Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income. Examples of such items are:

(a) a change in carrying amount arising from the revaluation of property, plant and equipment (see Ind AS 16); and

(b) [Refer to Appendix 1]

(c) exchange differences arising on the translation of the financial statements of a foreign operation (see Ind AS 21).

(d) [Refer to Appendix 1]

62A Indian Accounting Standards require or permit particular items to be credited or charged directly to equity. Examples of such items are:

(a) an adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error (see Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*); and

(b) amounts arising on initial recognition of the equity component of a compound financial instrument (see paragraph 23).

63 In exceptional circumstances it may be difficult to determine the amount of current and deferred tax that relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity). This may be the case, for example, when:

(a) there are graduated rates of income tax and it is impossible to determine the rate at which a specific component of taxable profit (tax loss) has been taxed;

(b) a change in the tax rate or other tax rules affects a deferred tax asset or liability relating (in whole or in part) to an item that was previously recognised outside profit or loss; or

(c) an entity determines that a deferred tax asset should be recognised, or should no longer be recognised in full, and the deferred tax asset relates (in whole or in part) to an item that was previously recognised outside profit or loss.

In such cases, the current and deferred tax related to items that are recognised outside profit or loss are based on a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction concerned, or other method that achieves a more appropriate allocation in the circumstances.

64 Ind AS 16 does not specify whether an entity should transfer each year from revaluation surplus to retained earnings an amount equal to the difference between the depreciation or amortisation on a revalued asset and the depreciation or amortisation based on the cost of that asset. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of property, plant or equipment.

65 When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the asset revaluation and the adjustment of the tax base are recognised in other comprehensive income in the periods in which they occur. However, if the revaluation for tax purposes is not related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of the adjustment of the tax base are recognised in profit or loss.

65A When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Deferred tax arising from a business combination

66 As explained in paragraphs 19 and 26(c), temporary differences may arise in a business combination. In accordance with Ind AS 103, an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria in paragraph 24) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, in accordance with paragraph 15(a), an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill.

67 As a result of a business combination, the probability of realising a pre-acquisition deferred tax asset of the acquirer could change. An acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination. For example, the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree. Alternatively, as a result of the business combination it might no longer be probable that future taxable profit will allow the deferred tax asset to be recovered. In such cases, the acquirer recognises a change in the deferred tax asset in the period of the business combination, but does not include it as part of the accounting for the business combination. Therefore, the acquirer does not take it into account in measuring the goodwill or bargain purchase gain it recognises in the business combination.

68 The potential benefit of the acquiree's income tax loss carryforwards or other deferred tax assets might not satisfy the criteria for separate recognition when a business combination is initially accounted for but might be realised subsequently. An

entity shall recognise acquired deferred tax benefits that it realises after the business combination as follows:

(a) Acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be applied to reduce the carrying amount of any goodwill related to that acquisition. If the carrying amount of that goodwill is zero, any remaining deferred tax benefits shall be recognised in other comprehensive income and accumulated in equity as capital reserve or recognised directly in capital reserve, depending on whether paragraph 34 or paragraph 36A of Ind AS 103 would have applied had the measurement period adjustments been known on the date of acquisition itself.

(b) All other acquired deferred tax benefits realised shall be recognised in profit or loss (or, if this Standard so requires, outside profit or loss).

Current and deferred tax arising from share-based payment transactions

68A In some tax jurisdictions, an entity receives a tax deduction (ie an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with Ind AS 102 *Share-based Payment*, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

68B As with the preliminary expenses discussed in paragraphs 9 and 26(b) of this Standard, the difference between the tax base of the employee services received to date (being the amount permitted as a deduction in future periods under taxation laws), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. If the amount permitted as a deduction in future periods under taxation laws is not known at the end of the period, it shall be estimated, based on information available at the end of the period. For example, if the amount permitted as a deduction in future periods under taxation laws is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period.

68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination. If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration

expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

Presentation

Tax assets and tax liabilities

69.70 [Refer to Appendix 1]

Offset

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

(a) has a legally enforceable right to set off the recognised amounts; and

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

72 Although current tax assets and liabilities are separately recognised and measured they are offset in the balance sheet subject to criteria similar to those established for financial instruments in Ind AS 32. An entity will normally have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation laws permit the entity to make or receive a single net payment.

73 In consolidated financial statements, a current tax asset of one entity in a group is offset against a current tax liability of another entity in the group if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

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

(a) **the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and**

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

(i) the same taxable entity; or

(ii) 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.

75 To avoid the need for detailed scheduling of the timing of the reversal of each temporary difference, this Standard requires an entity to set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

76 In rare circumstances, an entity may have a legally enforceable right of set-off, and an intention to settle net, for some periods but not for others. In such rare circumstances, detailed scheduling may be required to establish reliably whether the deferred tax liability of one taxable entity will result in increased tax payments in the same period in which a deferred tax asset of another taxable entity will result in decreased payments by that second taxable entity.

Tax expense

Tax expense (income) related to profit or loss from ordinary activities

77 **The tax expense (income) related to profit or loss from ordinary activities shall be presented in the statement of profit and loss.**

77A [Refer to Appendix 1]

Exchange differences on deferred foreign tax liabilities or assets

78 Ind AS 21 requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the statement of profit and loss. Accordingly, where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of profit and loss, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Disclosure

79 **The major components of tax expense (income) shall be disclosed separately.**

80 Components of tax expense (income) may include:

current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

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

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

(e) 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;

(f) 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;

(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and

(h) 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 Ind AS 8, because they cannot be accounted for retrospectively.

81 **The following shall also be disclosed separately:**

(a) **the aggregate current and deferred tax relating to items that are charged or credited directly to equity (see paragraph 62A);**

(ab) the amount of income tax relating to each component of other comprehensive income (see paragraph 62 and Ind AS 1);

(b) **[Refer to Appendix 1];**

(c) **an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:**

(i) 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; or

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

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

(e) **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;**

(f) 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 paragraph 39);

(g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;

(ii) the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the balance sheet;

(h) in respect of discontinued operations, the tax expense relating to:

(i) the gain or loss on discontinuance; and

(ii) 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;

(i) **the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were approved for issue, but are not recognised as a liability in the financial statements;**

(j) if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset (see paragraph 67), the amount of that change; and

(k) if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.

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

(a) 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

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

82A In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.

83 [Refer to Appendix 1]

84 The disclosures required by paragraph 81(c) enable users of financial statements to understand whether the relationship between tax expense (income) and accounting profit is unusual and to understand the significant factors that could affect that relationship in the future. The relationship between tax expense (income) and accounting profit may be affected by such factors as revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss), the effect of tax losses and the effect of foreign tax rates.

85 In explaining the relationship between tax expense (income) and accounting profit, an entity uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the entity is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for an entity operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction. The following example illustrates how the selection of the applicable tax rate affects the presentation of the numerical reconciliation.

Example illustrating paragraph 85

In 19X2, an entity has accounting profit in its own jurisdiction (country A) of Rs 1,500 (19X1: Rs 2,000) and in country B of Rs 1,500 (19X1: Rs 500). The tax rate is 30% in country A and 20% in country B. In country A, expenses of Rs 100 (19X1: Rs 200) are not deductible for tax purposes.

The following is an example of a reconciliation to the domestic tax rate.

	(Amount in Rs)	
	19X1	*19X2*
Accounting profit	*2,500*	3000
Tax at the domestic rate of 30%	*750*	900
Tax effect of expenses that are not deductible for tax purposes	*60*	30
Effect of lower tax rates in country B	*(50)*	(150)
Tax expense	*760*	780

86 The average effective tax rate is the tax expense (income) divided by the accounting profit.

87 It would often be impracticable to compute the amount of unrecognised deferred tax liabilities arising from investments in subsidiaries, branches and associates and interests in joint ventures (see paragraph 39). Therefore, this Standard requires an

entity to disclose the aggregate amount of the underlying temporary differences but does not require disclosure of the deferred tax liabilities. Nevertheless, where practicable, entities are encouraged to disclose the amounts of the unrecognised deferred tax liabilities because financial statement users may find such information useful.

87A Paragraph 82A requires an entity to disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.

87B It would sometimes not be practicable to compute the total amount of the potential income tax consequences that would result from the payment of dividends to shareholders. This may be the case, for example, where an entity has a large number of foreign subsidiaries. However, even in such circumstances, some portions of the total amount may be easily determinable. For example, in a consolidated group, a parent and some of its subsidiaries may have paid income taxes at a higher rate on undistributed profits and be aware of the amount that would be refunded on the payment of future dividends to shareholders from consolidated retained earnings. In this case, that refundable amount is disclosed. If applicable, the entity also discloses that there are additional potential income tax consequences not practicably determinable. In the parent's separate financial statements, if any, the disclosure of the potential income tax consequences relates to the parent's retained earnings.

87C An entity required to provide the disclosures in paragraph 82A may also be required to provide disclosures related to temporary differences associated with investments in subsidiaries, branches and associates or interests in joint ventures. In such cases, an entity considers this in determining the information to be disclosed under paragraph 82A. For example, an entity may be required to disclose the aggregate amount of temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognised (see paragraph 81(f)). If it is impracticable to compute the amounts of unrecognised deferred tax liabilities (see paragraph 87) there may be amounts of potential income tax consequences of dividends not practicably determinable related to these subsidiaries.

88 An entity discloses any tax-related contingent liabilities and contingent assets in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities. Similarly, where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see Ind AS 10) *Events after the Reporting Period*).

Appendix A

Income Taxes—Recovery of Revalued Non-Depreciable Assets

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 12.

Issue

1 Under paragraph 51 of Ind AS 12, the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of those assets and liabilities that give rise to temporary differences.

2 Paragraph 20 of Ind AS 12 notes that the revaluation of an asset does not always affect taxable profit (tax loss) in the period of the revaluation and that the tax base of the asset may not be adjusted as a result of the revaluation. If the future recovery of the carrying amount will be taxable, any difference between the carrying amount of the revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

3 The issue is how to interpret the term 'recovery' in relation to an asset that is not depreciated (non-depreciable asset) and is revalued in accordance with paragraph 31 of Ind AS 16.

4 [Refer to Appendix 1]

Accounting Principles

5 The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset in accordance with paragraph 31 of Ind AS 16 shall be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

Appendix B

Income Taxes—Changes in the Tax Status of an Entity or its Shareholders

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 12.

Issue

1 A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.

2 A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.

3 The issue is how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.

Accounting Principles

4 A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.

Appendix C
Examples of temporary differences

The appendix accompanies, but is not part of, Ind AS 12.

A. Examples of circumstances that give rise to taxable temporary differences

All taxable temporary differences give rise to a deferred tax liability.

Transactions that affect profit or loss

1 Interest revenue is received in arrears and is included in accounting profit on a time apportionment basis but is included in taxable profit on a cash basis.

2 Revenue from the sale of goods is included in accounting profit when goods are delivered but is included in taxable profit when cash is collected. (*note: as explained in B3 below, there is also a* ***deductible*** *temporary difference associated with any related inventory*).

3 Depreciation of an asset is accelerated for tax purposes.

4 Development costs have been capitalised and will be amortised to the statement of profit and loss but were deducted in determining taxable profit in the period in which they were incurred.

5 Prepaid expenses have already been deducted on a cash basis in determining the taxable profit of the current or previous periods.

Transactions that affect the balance sheet

6 Depreciation of an asset is not deductible for tax purposes and no deduction will be available for tax purposes when the asset is sold or scrapped. *(note: paragraph 15(b) of the Standard prohibits recognition of the resulting deferred tax liability unless the asset was acquired in a business combination, see also paragraph 22 of the Standard.)*

7 A borrower records a loan at the proceeds received (which equal the amount due at maturity), less transaction costs. Subsequently, the carrying amount of the loan is increased by amortisation of the transaction costs to accounting profit. The transaction costs were deducted for tax purposes in the period when the loan was first recognised. *(notes: (1) the taxable temporary difference is the amount of transaction costs already deducted in determining the taxable profit of current or prior periods, less the cumulative amount amortised to accounting profit; and (2) as the initial recognition of the loan affects taxable profit, the exception in paragraph 15(b) of the Standard does not apply. Therefore, the borrower recognises the deferred tax liability.)*

8 A loan payable was measured on initial recognition at the amount of the net proceeds, net of transaction costs. The transaction costs are amortised to accounting

profit over the life of the loan. Those transaction costs are not deductible in determining the taxable profit of future, current or prior periods. *(notes: (1) the taxable temporary difference is the amount of unamortised transaction costs; and (2) paragraph 15(b) of the Standard prohibits recognition of the resulting deferred tax liability.)*

9 The liability component of a compound financial instrument (for example a convertible bond) is measured at a discount to the amount repayable on maturity (see Ind AS 32 *Financial Instruments: Presentation*). The discount is not deductible in determining taxable profit (tax loss).

Fair value adjustments and revaluations

10 Financial assets are carried at fair value which exceeds cost but no equivalent adjustment is made for tax purposes.

11 An entity revalues property, plant and equipment (under the revaluation model treatment in Ind AS 16 *Property, Plant and Equipment*) but no equivalent adjustment is made for tax purposes. (*note: paragraph 61A of the Standard requires the related deferred tax to be recognised in other comprehensive income*.)

Business combinations and consolidation

12 The carrying amount of an asset is increased to fair value in a business combination and no equivalent adjustment is made for tax purposes. (*Note that on initial recognition, the resulting deferred tax liability increases goodwill or decreases the amount of any bargain purchase gain recognised. See paragraph 66 of the Standard*.)

13 Reductions in the carrying amount of goodwill are not deductible in determining taxable profit and the cost of the goodwill would not be deductible on disposal of the business. (*Note that paragraph 15(a) of the Standard prohibits recognition of the resulting deferred tax liability*.)

14 Unrealised losses resulting from intragroup transactions are eliminated by inclusion in the carrying amount of inventory or property, plant and equipment.

15 Retained earnings of subsidiaries, branches, associates and joint ventures are included in consolidated retained earnings, but income taxes will be payable if the profits are distributed to the reporting parent. (*note: paragraph 39 of the Standard prohibits recognition of the resulting deferred tax liability if 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*.)

16 Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. (*notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; and (2) paragraph 39 of the Standard prohibits recognition of the resulting deferred tax liability if 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*.)

17 The non-monetary assets and liabilities of an entity are measured in its functional currency but the taxable profit or tax loss is determined in a different currency. (*notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a taxable temporary difference, the resulting deferred tax liability is recognised (paragraph 41 of the Standard); and (3) the deferred tax is recognised in profit or loss, see paragraph 58 of the Standard*.)

Hyperinflation

18 Non-monetary assets are restated in terms of the measuring unit current at the end of the reporting period (see Ind AS 29 *Financial Reporting in Hyperinflationary Economies*) and no equivalent adjustment is made for tax purposes. (*notes: (1) the deferred tax is recognised in profit or loss; and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is recognised in other comprehensive income and the deferred tax relating to the restatement is recognised in profit or loss*.)

B. Examples of circumstances that give rise to deductible temporary differences

All deductible temporary differences give rise to a deferred tax asset. However, some deferred tax assets may not satisfy the recognition criteria in paragraph 24 of the Standard

Transactions that affect profit or loss

1 Retirement benefit costs are deducted in determining accounting profit as service is provided by the employee, but are not deducted in determining taxable profit until the entity pays either retirement benefits or contributions to a fund. *(note: similar deductible temporary differences arise where other expenses, such as gratuity and leave encashment or interest, are deductible on a cash basis in determining taxable profit.)*

2 Accumulated depreciation of an asset in the financial statements is greater than the cumulative depreciation allowed up to the end of the reporting period for tax purposes.

3 The cost of inventories sold before the end of the reporting period is deducted in determining accounting profit when goods or services are delivered but is deducted in determining taxable profit when cash is collected. *(note: as explained in A2 above, there is also a **taxable** temporary difference associated with the related trade receivable.)*

4 The net realisable value of an item of inventory, or the recoverable amount of an item of property, plant or equipment, is less than the previous carrying amount and an entity therefore reduces the carrying amount of the asset, but that reduction is ignored for tax purposes until the asset is sold.

5 Preliminary expenses (or organisation or other start up costs) are recognised as an expense in determining accounting profit but are not permitted as a deduction in determining taxable profit until a later period.

6 Income is deferred in the balance sheet but has already been included in taxable profit in current or prior periods.

7 A government grant which is included in the balance sheet as deferred income will not be taxable in future periods. *(note: paragraph 24 of the Standard prohibits the recognition of the resulting deferred tax asset, see also paragraph 33 of the Standard.)*

Fair value adjustments and revaluation

8 Financial assets are carried at fair value which is less than cost, but no equivalent adjustment is made for tax purposes.

Business combinations and consolidation

9 A liability is recognised at its fair value in a business combination, but none of the related expense is deducted in determining taxable profit until a later period. *(Note that the resulting deferred tax asset decreases goodwill or increases the amount of any bargain purchase gain recognised. See paragraph 66 of the Standard*.)

10 [Refer to Appendix 1]

11 Unrealised profits resulting from intragroup transactions are eliminated from the carrying amount of assets, such as inventory or property, plant or equipment, but no equivalent adjustment is made for tax purposes.

12 Investments in foreign subsidiaries, branches or associates or interests in foreign joint ventures are affected by changes in foreign exchange rates. *(notes: (1) there may be a taxable temporary difference or a deductible temporary difference; and (2) paragraph 44 of the Standard requires recognition of the resulting deferred tax asset to the extent, and only to the extent, that it is probable that: (a) the temporary difference will reverse in the foreseeable future; and (b) taxable profit will be available against which the temporary difference can be utilised).*

13 The non-monetary assets and liabilities of an entity are measured in its functional currency but the taxable profit or tax loss is determined in a different currency. *(notes: (1) there may be either a taxable temporary difference or a deductible temporary difference; (2) where there is a deductible temporary difference, the resulting deferred tax asset is recognised to the extent that it is probable that sufficient taxable profit will be available (paragraph 41 of the Standard); and (3) the deferred tax is recognised in profit or loss, see paragraph 58 of the Standard.)*

C. Examples of circumstances where the carrying amount of an asset or liability is equal to its tax base

1 Accrued expenses have already been deducted in determining an entity's current tax liability for the current or earlier periods.

2 A loan payable is measured at the amount originally received and this amount is the same as the amount repayable on final maturity of the loan.

3 Accrued expenses will never be deductible for tax purposes.

4 Accrued income will never be taxable.

Appendix D

Illustrative computations and presentation

Extracts from balance sheet and statements of profit and loss are provided to show the effects on these financial statements of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards.

All the examples below assume that the entities concerned have no transaction other than those described.

Example 1 – Depreciable assets

An entity buys equipment for Rs 10,000 and depreciates it on a straight-line basis over its expected useful life of five years. For tax purposes, the equipment is depreciated at 25% a year on a straight-line basis. Tax losses may be carried back against taxable profit of the previous five years. In year 0, the entity's taxable profit was Rs 5,000. The tax rate is 40%.

The entity will recover the carrying amount of the equipment by using it to manufacture goods for resale. Therefore, the entity's current tax computation is as follows:

(Amount in Rs)

	Year				
	1	*2*	*3*	*4*	*5*
Taxable income	2,000	2,000	2,000	2,000	2,000
Depreciation for tax purposes	2,500	2,500	2,500	2,500	0
Taxable profit (tax loss)	(500)	(500)	(500)	(500)	2,000
Current tax expense (income) at 40%	(200)	(200)	(200)	(200)	800

The entity recognises a current tax asset at the end of years 1 to 4 because it recovers the benefit of the tax loss against the taxable profit of year 0.

The temporary differences associated with the equipment and the resulting deferred tax asset and liability and deferred tax expense and income are as follows:

(Amount in Rs)

	Year				
	1	*2*	*3*	*4*	*5*
Carrying amount	8,000	6,000	4,000	2,000	0
Tax base	7,500	5,000	2,500	0	0
Taxable temporary difference	500	1,000	1,500	2,000	0
Opening deferred tax liability	0	200	400	600	800
Deferred tax expense (income)	200	200	200	200	(800)
Closing deferred tax	200	400	600	800	0

liability
The entity recognises the deferred tax liability in years 1 to 4 because the reversal of the taxable temporary difference will create taxable income in subsequent years. The entity's statement of profit and loss includes the following:

(Amount in Rs)

	Year				
	1	*2*	*3*	*4*	*5*
Income	2,000	2,000	2,000	2,000	2,000
Depreciation	2,000	2,000	2,000	2,000	2,000
Profit before tax	0	0	0	0	0
Current tax expense (income)	(200)	(200)	(200)	(200)	800
Deferred tax expense (income)	200	200	200	200	(800)
Total tax expense (income)	0	0	0	0	0
Profit for the period	0	0	0	0	0

Example 2 – Deferred tax assets and liabilities

The example deals with an entity over the two-year period, X5 and X6. In X5 the enacted income tax rate was 40% of taxable profit. In X6 the enacted income tax rate was 35% of taxable profit.

Charitable donations are recognised as an expense when they are paid and are not deductible for tax purposes.

In X5, the entity was notified by the relevant authorities that they intend to pursue an action against the entity with respect to sulphur emissions. Although as at December X6 the action had not yet come to court the entity recognised a liability of Rs 700 in X5 being its best estimate of the fine arising from the action. Fines are not deductible for tax purposes.

In X2, the entity incurred Rs 1,250 of costs in relation to the development of a new product. These costs were deducted for tax purposes in X2. For accounting purposes, the entity capitalised this expenditure and amortised it on the straight-line basis over five years. At 31/12/X4, the unamortised balance of these product development costs was Rs 500.

In X5, the entity entered into an agreement with its existing employees to provide healthcare benefits to retirees. The entity recognises as an expense the cost of this plan as employees provide service. No payments to retirees were made for such benefits in X5 or X6. Healthcare costs are deductible for tax purposes when payments are made to retirees. The entity has determined that it is probable that taxable profit will be available against which any resulting deferred tax asset can be utilised.

Buildings are depreciated for accounting purposes at 5% a year on a straight-line basis and at 10% a year on a straight-line basis for tax purposes. Motor vehicles are depreciated for accounting purposes at 20% a year on a straight-line basis and at

25% a year on a straight-line basis for tax purposes. A full year's depreciation is charged for accounting purposes in the year that an asset is acquired.

At 1/1/X6, the building was revalued to Rs 65,000 and the entity estimated that the remaining useful life of the building was 20 years from the date of the revaluation. The revaluation did not affect taxable profit in X6 and the taxation authorities did not adjust the tax base of the building to reflect the revaluation. In X6, the entity transferred Rs 1,033 from revaluation surplus to retained earnings. This represents the difference of Rs 1,590 between the actual depreciation on the building (Rs 3,250) and equivalent depreciation based on the cost of the building (Rs 1,660, which is the book value at 1/1/X6 of Rs 33,200 divided by the remaining useful life of 20 years), less the related deferred tax of Rs 557 (see paragraph 64 of the Standard).

Current tax expense

	(Amount in Rs)	
	X5	*X6*
Accounting profit	8,775	8,740
Add		
Depreciation for accounting purposes	4,800	8,250
Charitable donations	500	350
Fine for environmental pollution	700	–
Product development costs	250	250
Healthcare benefits	2,000	1,000
	17,025	18,590
Deduct		
Depreciation for tax purposes	(8,100)	(11,850)
Taxable profit	8,925	6,740
Current tax expense at 40%	3,570	
Current tax expense at 35%		2,359

Carrying amounts of property, plant and equipment

Cost	*Building*	*Motor vehicles*	*Total*
		(Amount in Rs)	
Balance at 31/12/X4	50,000	10,000	60,000
Additions X5	6,000	–	6,000
Balance at 31/12/X5Q	56,000	10,000	66,000
Elimination of accumulated depreciation on revaluation at 1/1/X6	(22,800)	–	(22,800)
Revaluation at 1/1/X6	31,800	–	31,800
Balance at 1/1/X6	65,000	10,000	75,000
Additions X6	–	15,000	15,000
	65,000	25,000	90,000

Accumulated depreciation	5%	20%	
Balance at 31/12/X4	20,000	4,000	24,000
Depreciation X5	2,800	2,000	4,800
Balance at 31/12/X5	22,800	6,000	28,800
Revaluation at 1/1/X6	(22,800)	–	(22,800)
Balance at 1/1/X6	–	6,000	6,000
Depreciation X6	3,250	5,000	8,250
Balance at 31/12/X6	3,250	11,000	14,250
Carrying amount			
31/12/X4	30,000	6,000	36,000
31/12/X5	33,200	4,000	37,200
31/12/X6	61,750	14,000	75,750

Tax base of property, plant and equipment

Cost	*Building*	*Motor vehicles*	*Total*
		(Amount in Rs)	
Balance at 31/12/X4	50,000	10,000	60,000
Additions X5	6,000	–	6,000
Balance at 31/12/X5	56,000	10,000	66,000
Additions X6	–	15,000	15,000
Balance at 31/12/X6	56,000	25,000	81,000
Accumulated depreciation	10%	25%	
Balance at 31/12/X4	40,000	5,000	45,000
Depreciation X5	5,600	2,500	8,100
Balance at 31/12/X5	45,600	7,500	53,100
Depreciation X6	5,600	6,250	11,850
Balance 31/12/X6	51,200	13,750	64,950
Tax base			
31/12/X4	10,000	5,000	15,000
31/12/X5	10,400	2,500	12,900
31/12/X6	4,800	11,250	16,050

Deferred tax assets, liabilities and expense at 31/12/X4

	Carrying amount	*Tax base*	*Temporary differences*
		(Amount in Rs)	
Accounts receivable	500	500	–
Inventory	2,000	2,000	–
Product development costs	500	–	500
Investments	33,000	33,000	–
Property, plant & equipment	36,000	15,000	21,000
TOTAL ASSETS	72,000	50,500	21,500
Current income taxes payable	3,000	3,000	–
Accounts payable	500	500	–
Fines payable	–	–	–
Liability for healthcare benefits	–	–	–
Long-term debt	20,000	20,000	–
Deferred income taxes	8,600	8,600	–
TOTAL LIABILITIES	32,100	32,100	
Share capital	5,000	5,000	–
Revaluation surplus	–	–	–
Retained earnings	34,900	13,400	
TOTAL LIABILITIES/EQUITY	72,000	50,500	
TEMPORARY DIFFERENCES			21,500
Deferred tax liability	21,500 at 40%		8,600
Deferred tax asset	–	–	–
Net deferred tax liability			8,600

Deferred tax assets, liabilities and expense at 31/12/X5

	Carrying amount	*Tax base*	*Temporary differences*
		(Amount in Rs)	
Accounts receivable	500	500	–
Inventory	2,000	2,000	–
Product development costs	250	–	250
Investments	33,000	33,000	–
Property, plant & equipment	37,200	12,900	24,300
TOTAL ASSETS	72,950	48,400	24,550
Current income taxes payable	3,570	3,570	–
Accounts payable	500	500	–
Fines payable	700	700	–
Liability for healthcare benefits	2,000	–	(2,000)
Long-term debt	12,475	12,475	–
Deferred income taxes	9,020	9,020	
TOTAL LIABILITIES	28,265	26,265	(2,000)
Share capital	5,000	5,000	–
Revaluation surplus	–	–	–
Retained earnings	39,685	17,135	
TOTAL LIABILITIES/EQUITY	72,950	48,400	
TEMPORARY DIFFERENCES			22,550
Deferred tax liability	24,550 at 40%		9,820
Deferred tax asset	(2,000 at 40%)		(800)
Net deferred tax liability			9,020
Less: Opening deferred tax liability			(8,600)
Deferred tax expense (income) related to the origination and reversal of temporary differences			420

Deferred tax assets, liabilities and expense at 31/12/X6

	Carrying amount	*Tax base*	*Temporary differences*
		(Amount in Rs)	
Accounts receivable	500	500	–
Inventory	2,000	2,000	–
Product development costs	–	–	–
Investments	33,000	33,000	–
Property, plant & equipment	75,750	16,050	59,700
TOTAL ASSETS	111,250	51,550	59,700
Current income taxes payable	2,359	2,359	–
Accounts payable	500	500	–
Fines payable	700	700	
Liability for healthcare benefits	3,000	–	(3,000)
Long-term debt	12,805	12,805	–
Deferred income taxes	19,845	19,845	–
TOTAL LIABILITIES	39,209	36,209	(3,000)
Share capital	5,000	5,000	–
Revaluation surplus	19,637	–	–
Retained earnings	47,404	10,341	
TOTAL LIABILITIES/EQUITY	111,250	51,550	

TEMPORARY DIFFERENCES		56,700
Deferred tax liability	59,700 at 35%	20,895
Deferred tax asset	(3,000 at 35%)	(1,050)
Net deferred tax liability		19,845
Less: Opening deferred tax liability		(9,020)
Adjustment to opening deferred tax liability resulting from reduction in tax rate	22,550 at 5%	1,127
Deferred tax attributable to revaluation surplus	31,800 at 35%	(11,130)
Deferred tax expense (income) related to the origination and reversal of temporary differences		822

Illustrative disclosure

The amounts to be disclosed in accordance with the Standard are as follows:

Major components of tax expense (income) (paragraph 79)

	(Amount in Rs)	
	X5	*X6*
Current tax expense	3,570	2,359
Deferred tax expense relating to the origination and reversal of temporary differences:	420	822
Deferred tax expense (income) resulting from reduction in tax rate	–	(1,127)
Tax expense	3,990	2,054

Income tax relating to the components of other comprehensive income (paragraph 81(ab))

Deferred tax relating to revaluation of building	–	(11,130)

In addition, deferred tax of Rs 557 was transferred in X6 from retained earnings to revaluation surplus. This relates to the difference between the actual depreciation on the building and equivalent depreciation based on the cost of the building.

Explanation of the relationship between tax expense and accounting profit (paragraph 81(c))

The Standard permits two alternative methods of explaining the relationship between tax expense (income) and accounting profit. Both of these formats are illustrated below.

(i) 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

	(Amount in Rs)	
	X5	*X6*
Accounting profit	8,775	8,740
Tax at the applicable tax rate of 35% (X5: 40%)	3,510	3,059
Tax effect of expenses that are not deductible in determining taxable profit:		
Charitable donations	200	122
Fines for environmental pollution	280	–
Reduction in opening deferred taxes resulting from reduction in tax rate	–	(1,127)
Tax expense	3,990	2,054

The applicable tax rate is the aggregate of the national income tax rate of 30% (X5: 35%) and the local income tax rate of 5%.

(ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed

	(Amount in Rs)	
	X5	*X6*
	%	%
Applicable tax rate	40.0	35.0
Tax effect of expenses that are not deductible for tax purposes:		
Charitable donations	2.3	1.4
Fines for environmental pollution	3.2	–
Effect on opening deferred taxes of reduction in tax rate	–	(12.9)
Average effective tax rate (tax expense divided by profit before tax)	45.5	23.5

The applicable tax rate is the aggregate of the national income tax rate of 30% (X5: 35%) and the local income tax rate of 5%.

An explanation of changes in the applicable tax rate(s) compared to the previous accounting period (paragraph 81(d))

In X6, the government enacted a change in the national income tax rate from 35% to 30%.

In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

(i) the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;

(ii) the amount of the deferred tax income or expense recognised in profit or loss for each period presented, if this is not apparent from the changes in the amounts recognised in the balance sheet (paragraph 81(g))

	(Amount in Rs)	
	X5	*X6*
Accelerated depreciation for tax purposes	9,720	10,322
Liabilities for healthcare benefits that are deducted for tax purposes only when paid	(800)	(1,050)
Product development costs deducted from taxable profit in earlier years	100	–
Revaluation, net of related depreciation	–	10,573
Deferred tax liability	9,020	19,845

(note: the amount of the deferred tax income or expense recognised in profit or loss for the current year is apparent from the changes in the amounts recognised in the balance sheet)

Example 3 – Business combinations

On 1 January X5 entity A acquired 100 per cent of the shares of entity B at a cost of Rs 600. At the acquisition date, the tax base in A's tax jurisdiction of A's investment in B is Rs 600. Reductions in the carrying amount of goodwill are not deductible for tax purposes, and the cost of the goodwill would also not be deductible if B were to dispose of its underlying business. The tax rate in A's tax jurisdiction is 30 per cent and the tax rate in B's tax jurisdiction is 40 per cent.

The fair value of the identifiable assets acquired and liabilities assumed (excluding deferred tax assets and liabilities) by A is set out in the following table, together with their tax bases in B's tax jurisdiction and the resulting temporary differences.

	(Amount in Rs)		
	Amount recognised at acquisition	*Tax base*	*Temporary differences*
Property, plant and equipment	270	155	115
Accounts receivable	210	210	–
Inventory	174	124	50
Retirement benefit obligations	(30)	–	(30)
Accounts payable	(120)	(120)	–
Identifiable assets acquired and liabilities assumed, excluding deferred tax	504	369	135

The deferred tax asset arising from the retirement benefit obligations is offset against the deferred tax liabilities arising from the property, plant and equipment and inventory (see paragraph 74 of the Standard).

No deduction is available in B's tax jurisdiction for the cost of the goodwill. Therefore, the tax base of the goodwill in B's jurisdiction is nil. However, in accordance with paragraph 15(a) of the Standard, A recognises no deferred tax liability for the taxable temporary difference associated with the goodwill in B's tax jurisdiction.

The carrying amount, in A's consolidated financial statements, of its investment in B is made up as follows:

	Rs
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax	504
Deferred tax liability (135 at 40%)	(54)
Fair value of identifiable assets acquired and liabilities assumed	450
Goodwill	150
Carrying amount	600

Because, at the acquisition date, the tax base in A's tax jurisdiction, of A's investment in B is Rs 600, no temporary difference is associated in A's tax jurisdiction with the investment.

During X5, B's equity (incorporating the fair value adjustments made as a result of the business combination) changed as follows:

	(Amount in Rs)
At 1 January X5	450
Retained profit for X5 (net profit of Rs 150, less dividend payable of Rs 80)	70
At 31 December X5	520

A recognises a liability for any withholding tax or other taxes that it will incur on the accrued dividend receivable of Rs 80.

At 31 December X5, the carrying amount of A's underlying investment in B, excluding the accrued dividend receivable, is as follows:

	Rs
Net assets of B	520
Goodwill	150
Carrying amount	670

The temporary difference associated with A's underlying investment is Rs 70. This amount is equal to the cumulative retained profit since the acquisition date.

If A has determined that it will not sell the investment in the foreseeable future and that B will not distribute its retained profits in the foreseeable future, no deferred tax liability is recognised in relation to A's investment in B (see paragraphs 39 and 40 of the Standard). Note that this exception would apply for an investment in an associate only if there is an agreement requiring that the profits of the associate will not be distributed in the foreseeable future (see paragraph 42 of the Standard). A discloses the amount of the temporary difference for which no deferred tax is recognised, ie Rs 70 (see paragraph 81(f) of the Standard).

If A expects to sell the investment in B, or that B will distribute its retained profits in the foreseeable future, A recognises a deferred tax liability to the extent that the temporary difference is expected to reverse. The tax rate reflects the manner in which A expects to recover the carrying amount of its investment (see paragraph 51 of the Standard). A recognises the deferred tax in other comprehensive income to the extent that the deferred tax results from foreign exchange translation differences that have been recognised in other comprehensive income (paragraph 61A of the Standard). A discloses separately:

(a) the amount of deferred tax that has been recognised in other comprehensive income (paragraph 81(ab) of the Standard); and

(b) the amount of any remaining temporary difference which is not expected to reverse in the foreseeable future and for which, therefore, no deferred tax is recognised (see paragraph 81(f) of the Standard).

Example 4 – Compound financial instruments

An entity receives a non-interest-bearing convertible loan of Rs 1,000 on 31 December X4 repayable at par on 1 January X8. In accordance with Ind AS 32 *Financial Instruments: Presentation* the entity classifies the instrument's liability component as a liability and the equity component as equity. The entity assigns an initial carrying amount of Rs 751 to the liability component of the convertible loan and Rs 249 to the equity component. Subsequently, the entity recognises imputed discount as interest expense at an annual rate of 10% on the carrying amount of the liability component at the beginning of the year. The tax authorities do not allow the entity to claim any deduction for the imputed discount on the liability component of the convertible loan. The tax rate is 40%.

The temporary differences associated with the liability component and the resulting deferred tax liability and deferred tax expense and income are as follows:

(Amount in Rs)

	Year			
	X4	*X5*	*X6*	*X7*
Carrying amount of liability component	751	826	909	1,000
Tax base	1,000	1,000	1,000	1,000
Taxable temporary difference	249	174	91	–
Opening deferred tax liability at 40%	0	100	70	37
Deferred tax charged to equity	100	–	–	–
Deferred tax expense (income)	–	(30)	(33)	(37)
Closing deferred tax liability at 40%	100	70	37	–

As explained in paragraph 23 of the Standard, at 31 December X4, the entity recognises the resulting deferred tax liability by adjusting the initial carrying amount of the equity component of the convertible liability. Therefore, the amounts recognised at that date are as follows:

	Rs
Liability component	751
Deferred tax liability	100
Equity component (249 less 100)	149
	1,000

Subsequent changes in the deferred tax liability are recognised in profit or loss as tax income (see paragraph 23 of the Standard). Therefore, the entity's profit or loss includes the following:

	(Amount in Rs)			
	Year			
	X4	*X5*	*X6*	*X7*
Interest expense (imputed discount)	–	75	83	91
Deferred tax expense (income)	–	(30)	(33)	(37)
	–	45	50	54

Example 5 – Share-based payment transactions

In accordance with Ind AS 102 *Share-based Payment*, an entity has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised, and the deduction is based on the options' intrinsic value at exercise date.

As explained in paragraph 68B of the Standard, the difference between the tax base of the employee services received to date (being the amount permitted as a deduction in future periods under taxation laws in respect of those services), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. Paragraph 68B requires that, if the amount permitted as a deduction in future periods under taxation laws is not known at the end of the period, it should be estimated, based on information available at the end of the period. If the amount permitted as a deduction in future periods under taxation laws is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period. Therefore, in this example, the estimated future tax deduction (and hence the measurement of the deferred tax asset) should be based on the options' intrinsic value at the end of the period.

As explained in paragraph 68C of the Standard, if the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, paragraph 68C requires that the excess of the associated current or deferred tax should be recognised directly in equity.

The entity's tax rate is 40 per cent. The options were granted at the start of year 1, vested at the end of year 3 and were exercised at the end of year 5. Details of the

expense recognised for employee services received and consumed in each accounting period, the number of options outstanding at each year-end, and the intrinsic value of the options at each year-end, are as follows:

	Employee services expense	Number of options at year-end	Intrinsic value per option
	Rs		Rs
Year 1	188,000	50,000	5
Year 2	185,000	45,000	8
Year 3	190,000	40,000	13
Year 4	0	40,000	17
Year 5	0	40,000	20

The entity recognises a deferred tax asset and deferred tax income in years 1–4 and current tax income in year 5 as follows. In years 4 and 5, some of the deferred and current tax income is recognised directly in equity, because the estimated (and actual) tax deduction exceeds the cumulative remuneration expense.

Year 1

Deferred tax asset and deferred tax income:

$(50{,}000 \times 5 \times {}^{1}/_{3}{}^{(a)} \times 0.40) =$ Rs 33,333

(a) The tax base of the employee services received is based on the intrinsic value of the options, and those options were granted for three years' services. Because only one year's services have been received to date, it is necessary to multiply the option's intrinsic value by one-third to arrive at the tax base of the employee services received in year 1.

The deferred tax income is all recognised in profit or loss, because the estimated future tax deduction of Rs 83,333 ($50{,}000 \times 5 \times {}^{1}/_{3}$) is less than the cumulative remuneration expense of Rs 188,000.

Year 2	*(Amount in Rs)*	
Deferred tax asset at year-end:		
$(45{,}000 \times 8 \times {}^{2}/_{3} \times 0.40) =$	96,000	
Less deferred tax asset at start of year	(33,333)	
Deferred tax income for year		62,667*

* This amount consists of the following:

Deferred tax income for the temporary difference between the tax base of the employee services received during the year and their carrying amount of nil:	
$(45{,}000 \times 8 \times {}^{1}/_{3} \times 0.40)$	48,000

Tax income resulting from an adjustment to the tax base of employee services received in previous years:			
		18,000	
(a)	increase in intrinsic value: (45,000 × 3 × $^1/_3$ × 0.40)		
(b)	decrease in number of options: (5,000 × 5 × $^1/_3$ × 0.40)	(3,333)	
Deferred tax income for year			62,667

The deferred tax income is all recognised in profit or loss, because the estimated future tax deduction of Rs 240,000 (45,000 × 8 × $^2/_3$) is less than the cumulative remuneration expense of Rs 373,000 (188,000 + 185,000).

Year 3

Deferred tax asset at year-end:	
(40,000 × 13 × 0.40) =	208,000
Less deferred tax asset at start of year	(96,000)
Deferred tax income for year	112,000

The deferred tax income is all recognised in profit or loss, because the estimated future tax deduction of Rs 520,000 (40,000 × 13) is less than the cumulative remuneration expense of Rs 563,000 (188,000 + 185,000 + 190,000).

Year 4

Deferred tax asset at year-end:		
(40,000 × 17 × 0.40) =	272,000	
Less deferred tax asset at start of year	(208,000)	
Deferred tax income for year		64,000

The deferred tax income is recognised partly in profit or loss and partly directly in equity as follows:		
Estimated future tax deduction (40,000 × 17) =	680,000	
Cumulative remuneration expense	563,000	
Excess tax deduction		117,000
Deferred tax income for year	64,000	
Excess recognised directly in equity (117,000 × 0.40) =	46,800	
Recognised in profit or loss		17,200

Year 5

Deferred tax expense (reversal of deferred tax asset)	272,000	
Amount recognised directly in equity (reversal of cumulative deferred tax income recognised directly in equity)	46,800	
Amount recognised in profit or loss		225,200
Current tax income based on intrinsic value of options at exercise date (40,000 × 20 × 0.40) =	320,000	
Amount recognised in profit or loss (563,000 × 0.40) =	225,200	
Amount recognised directly in equity		94,800

Summary

						(Amount in Rs)
	Statement of profit and loss			Balance sheet		
	Employee services expense	Current tax expense (income)	Deferred tax expense (income)	Total tax expense (income)	Equity	Deferred tax asset
Year 1	188,000	0	(33,333)	(33,333)	0	33,333
Year 2	185,000	0	(62,667)	(62,667)	0	96,000
Year 3	190,000	0	(112,000)	(112,000)	0	208,000
Year 4	0	0	(17,200)	(17,200)	(46,800)	272,000
Year 5	0	(225,200)	225,200	0	46,800	0
						(94,800)
Totals	563,000	(225,200)	0	(225,200)	(94,800)	0

Example 6 – Replacement awards in a business combination

On 1 January 20X1 Entity A acquired 100 per cent of Entity B. Entity A pays cash consideration of Rs 400 to the former owners of Entity B.

At the acquisition date Entity B had outstanding employee share options with a market-based measure of Rs 100. The share options were fully vested. As part of the business combination Entity B's outstanding share options are replaced by share options of Entity A (replacement awards) with a market-based measure of Rs 100 and an intrinsic value of Rs 80. The replacement awards are fully vested. In accordance with paragraphs B56–B62 of Ind AS 103 *Business Combinations*, the replacement awards are part of the consideration transferred for Entity B. A tax deduction for the replacement awards will not arise until the options are exercised. The tax deduction will be based on the share options' intrinsic value at that date. Entity A's tax rate is 40 per cent. Entity A recognises a deferred tax asset of Rs 32 (Rs 80 intrinsic value × 40%) on the replacement awards at the acquisition date.

Entity A measures the identifiable net assets obtained in the business combination (excluding deferred tax assets and liabilities) at Rs 450. The tax base of the identifiable net assets obtained is Rs 300. Entity A recognises a deferred tax liability of Rs 60 ((Rs 450 – Rs 300) × 40%) on the identifiable net assets at the acquisition date.

Goodwill is calculated as follows:

	Rs
Cash consideration	400
Market-based measure of replacement awards	100
Total consideration transferred	500
Identifiable net assets, excluding deferred tax assets and liabilities	(450)
Deferred tax asset	32
Deferred tax liability	60
Goodwill	**78**

Reductions in the carrying amount of goodwill are not deductible for tax purposes. In accordance with paragraph 15(a) of the Standard, Entity A recognises no deferred tax liability for the taxable temporary difference associated with the goodwill recognised in the business combination.

The accounting entry for the business combination is as follows:

	Rs	**Rs**
Dr Goodwill	78	
Dr Identifiable net assets	450	
Dr Deferred tax asset	32	
Cr Cash		400
Cr Equity (replacement awards)		100
Cr Deferred tax liability		60

On 31 December 20X1 the intrinsic value of the replacement awards is Rs 120. Entity A recognises a deferred tax asset of Rs 48 (Rs 120 × 40%). Entity A recognises deferred tax income of Rs 16 (Rs 48 – Rs 32) from the increase in the intrinsic value of the replacement awards. The accounting entry is as follows:

	Rs	**Rs**
Dr Deferred tax asset	16	
Cr Deferred tax income		16

If the replacement awards had not been tax-deductible under current tax law, Entity A would not have recognised a deferred tax asset on the acquisition date. Entity A would have accounted for any subsequent events that result in a tax deduction related to the replacement award in the deferred tax income or expense of the period in which the subsequent event occurred.

Paragraphs B56–B62 of Ind AS 103 provide guidance on determining which portion of a replacement award is part of the consideration transferred in a business combination and which portion is attributable to future service and thus a post-combination remuneration expense. Deferred tax assets and liabilities on

replacement awards that are post-combination expenses are accounted for in accordance with the general principles as illustrated in Example 5.

Appendix E

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 12.

Appendix A, *Applying the Restatement Approach under Ind AS 29 Financial Reporting in Hyperinflationary Economies* contained in Ind AS 29 *Financial Reporting in Hyperinflationary Economies* makes reference to Ind AS 12.

Appendix 1

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 12 and the corresponding International Accounting Standard (IAS) 12, Income Taxes, SIC 21, Income Taxes—Recovery of Revalued Non-Depreciable Assets and SIC 25, *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders* issued by the International Accounting Standards Board

Comparison with IAS 12, *Income Taxes*

1. .The transitional provisions given in SIC 21 and SIC 25 have not been given in Ind AS 12, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards.*

2. Different terminology is used, as used in existing laws e.g., the term **'**balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. Words 'approved for issue' have been used instead of 'authorised for issue' in the context of financial statements considered for the purpose of events after the reporting period.

3. Requirements regarding presentation of tax expense (income) in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding the two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

4. The following paragraph numbers appear as 'Deleted 'in IAS 12. In order to maintain consistency with paragraph numbers of IAS 12, the paragraph numbers are retained in Ind AS 12 :

(i) paragraph 3

(ii) paragraph 32

(iii) paragraph 50

(iv) paragraph 61

(v) paragraphs 62(b) and (d)

(vi) paragraph 69

(vii) paragraph 70

(viii) paragraph 77A

(ix) paragraph 81(b)

(x) paragraph 83

(xi) paragraph B 10 of Appendix 'C'

5. As a consequence of not allowing fair value model in Ind AS 40, Paragraph A4 of Appendix A has been deleted and the following paragraphs have been modified in Ind AS 12:

(i) paragraph 20

(ii) paragraph A 10 of Appendix C

(iii) paragraph B 8 of Appendix C

6. Paragraph 68(a) has been modified as a consequence of different accounting treatment of bargain purchase gain in Ind AS 103, *Business Combinations,* in comparison to IFRS 3, *Business Combination.*

7. Paragraph 33 of Ind AS 12 has been modified due to not allowing the option of deducting specified grant from the cost of the related asset as in Ind AS 20.