Accounting for Income-tax

In order to avoid unnecessary confusion in accounting for income-tax and preparation of Cash-flow Statement (to arrive at the Payment of Income-Tax,) , it is advisible to maintain the following 2 Accounts separately, year-wise, for example., , Advance Tax (2011-12) Provision for Income-Tax (2011-12) and continue to maintain the said Accounts till an undisputed Assesssment is completed.

We know that when Advance Tax is paid, the entry is:

a) Advance Tax (FinYear) Dr
To Bank.

Income-tax deducted at source from payments received by us is also accounted as above.
b) Tax Deducted at Source(TDS) (Fin. Year) Dr
To Party.

c) Similarly, when Provision for Income-tax is made at the end of the year , the entry is :

Profit & Loss A/c Dr
To Provision for Income-Tax (Fin Year)

How do we square up the Accounts in (a), (b) and (c) above ? The following assumptions are made for easy understanding under different situations :

I. Fin Year 2008-09 and Asst Year 2009-10 : ASSESSMENT COMPLETED IN FY 2011-12.

Excess Advance tax paid, but Short provision made :

(A) Advance Tax paid is Rs. 100/-
(B) Provision for Tax is Rs. 85/-
(C) Assessed & undisputed Liability is Rs. 90/-

Journal Entries in the Financial year 2011-12 is:

a) Profit & Loss Account Dr 05
To provision for Tax (FY-2008-09) 05
(Being the provision for IT for the year FY2008-09 short provided earlier now made up)

b) Provision for I T (FY2008-09) Dr. 90
IT Refund Receivable Dr 10
To Advance Tax(FY2008-09) 100

On receipt of Refund Order from IT Department :
c) Bank A/c Dr 10
To IT Refund Receivable 10

II. Fin Year 2008-09 and Asst Year 2009-10 ASSESSMENT COMPLETED IN FY 2011-12.

Excess Advance tax paid, and excess provision is also made
(A) Advance Tax paid is Rs. 100/-

(B) Provision for Tax is Rs. 110/-
(C) Assessed & undisputed Liability is Rs. 95/-
Journal Entries are :

a) Provision for I-T(FY2008-09) 110
IT Refund Receivable 5

To Advance Tax(FY 2008-09) 100
To Provision for IT (Appropriation) no longer required withdrawn 15

III. Fin Year 2008-09 and Asst Year 2009-10 ASSESSMENT COMPLETED IN FY 2011-12.

Short Advance tax paid, and excess provision is made

A) Advance Tax paid is Rs. 100/-
(B) Provision for Tax is Rs. 130/-
(C) Assessed & undisputed Liability is Rs. 120/-

Journal Entries are :

a) Provision for IT-2008-09 Dr 130
To Advance Tax (2008-09) 100
To IT Payable (2008-09) 20
To Provision fo IT No longer required withdrawn 10

b)) Provision for IT
No longer required withdrawn 10

To P & L Account 10

IV. Fin Year 2008-09 and Asst Year 2009-10 ASSESSMENT COMPLETED IN FY 2011-12.

Short Advance tax paid, and short provision for IT is made

(A) Advance Tax paid is Rs. 100/-
(B) Provision for Tax is Rs. 90/--
(C) Assessed & undisputed Liability is Rs. 130/--

Journal Entries are :

a) Profit & Loss A/c Dr 40
To Provision for IT-(2008-09) 40

b)	Provision for IT(2008-09) Dr	130	
	To Advance Tax (2008-09)		100
	To IT payable (2008-09)		30

c)	IT Payable A/c Dr	30	
	To Bank		30