AS-22 Accounting for Taxes on Income

Ind AS-12.

→ Accounting income refers to the net profit/loss as reported in the statement of P&L, before deducting taxes.

→ Taxable income refers to the taxable income computed in accordance with the tax laws, based on which income tax payable is determined.

→ Timing diddeence - Those difference which originates in one period and capable of reversal in one or more subsequent periods.

→ permanent ditterence :- It cannot be reversed in one or more subsquent periods.

→ Identify the difference between Accounting & Taxable income

- P.D.
- T.D
  - origination
    - TI > AI → DTA
    - TI < AI → DTL
  - Reversal
    - TI > AT → DTL(R)
    - TI < AT → DTA(R)

Q1) from following list of items classify the differences as P.D & T.D

a) provision for doubtful debts	P.D
b) provision for retirement benefits	T.D
c) Depreciation	T.D
d) Deferment of VRS expenses	T.D
e) Accumulated unabsorbed depreciation	T.D
f) provision for warranty repairs	T.D
g) sales tax paid after due date	T.D
h) Donation to private trust	P.D
i) Interest paid to f.I before due date	No diff
j) conversion of capital assets as S.I.T	T.D.

Q2) from the following T.D find out as wether they would result in DTA/DTL

Items	Accounting	Taxation	DTA/DTL
A.I ↑ T.I ↓ ⇒ Tax paid less Dep	100000	125000	DTL
Income	240000	200000	DTL
Income	400000	500000	DTA
expense	25000	45000	DTL
Expense provision	100000.	75000.	DTA

→ Accounting entries

• current tax a/c Dr To provision for tax a/c • P&L a/c Dr To current tax a/c	DTL :- P&L a/c Dr To DTL a/c DTA :- DTA a/c Dr To P&L a/c

→ Statement of P&L

PBT	xxx
− Tax exp (current tax)	xxx
+ DTL	xx
− DTA	xx
− DTL(R)	xx
+ DTA(R)	xxx
	xxx

→ Measurement of current tax & deffered tax

C.T ⇒ to be measured at current tax rates

DT ⇒ to be measured at enacted or substanally enacted rates

→ Treatment of deffered tax during tax holiday periods :- [10A, 10B, 80IA & 80IB]

• Timing diff that are originated during tax holiday period and capable of reversal during tax holiday period on which no deffered tax is recognised.

• Timing diff that are originated during tax holiday period and are capable of reversal after tax holiday period on which deffered tax will be recognised for which T.D originates.

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→ DTA should be recognised and carried forward only to the extent that there is a virtual certanity that sufficient future taxable income will be available against which such DTA can be realised.

→ problems on MAT :-

Accounting profit – 5,00,000

Book profit as per MAT – 450000

profit as per Income tax act – 50,000

Tax rate – 30%.

MAT rate – 7.5 %.

Sol :- Tax as per accounting profit – 500000 × 30% = 150000

Tax as per income tax profit – 50,000 × 30% = 15000.

Tax as per MAT = 450000 × 7.5% = 33750.

$$\boxed{\text{Tax expense} = \text{current tax} + \text{Deffered tax}}$$

150000 = 15000 + DT

DT = 135000

Amount of tax to be debited in P&L a/c for year 31-3-2017

= current tax + DTL + excess of MAT over C.T

= 15000 + 135000 + 18750.

= 168750.

→ current tax assests & liabilities can be set off if the enterprise has a legally enforcable right to

- set off the recognised amounts and intends to settle them on net basis.

→ Deffered tax assests & liabilites can be set off if the items relate to taxes on income leived by the same governing taxlaws

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