

AS 22 → Accounting for Taxes on Income



Tax Rate - 30%

Example 1

Year 2025-26

Books of A/c's

Revenue 1000 crores → Accrual

Expense (700) crores → Accrual

PBT 300 crores →

→ Tax @ 30% ~~120~~ 90 crores

Tax to be booked in A/c's.

Tax Books

Revenue 1000 crores

Expense (600) crores

PBT 400 crores

Tax @ 30%

120 crores

Tax to be paid.

Current Tax

J.E. A/c's

Tax Exp (P/L) A/c Dr 90 cr

~~Prepaid Exp (Asset) Dr. 120 cr~~ Def-Tax Asset

TO ClB A/c 120 cr

(4r d) 2026-27

Ac's

Revenue 1000 crores
Exp (700 crores)
PBT 300 crores
Tax @ 30% 90 crores

Tax Books

Revenue 1000 crores
Exp (800 crores)
PBT 200 crores

Tax @ 30% 60 crores

Tax to be paid.
Current Tax

J-E. Tax Exp (PIL) Ac Dr 90 crores

TO CIB Ac 60 crores

TO ~~Prepaid Exp (Reverse)~~ 30 crores

(DTA Reverse)

Summary

Cur. Tax - Tax paid to taxation authority

Def. Tax → Diff Btw Tax Accrued & Tax paid.

Proper J-E 4r (25-26)

i) Current Tax

Cur. Tax Exp (ML) 120
TO CIB 120

Deferred Tax

Deferred Tax Asset Ac Dr 30
TO PIL 30

Scn III PL Draft

Tax Exp	
Current Tax	120
Def. Tax	(30)
	90

1. Definitions

a) Deferred Tax

It is the tax effect of timing difference between Accounting profit & taxable profit.

b) Deferred Tax Asset (DTA)

DTA means paid more tax in curr. year but will pay less tax in future

c) Deferred Tax Liab (DTL)

DTL means paid less tax in curr year. but will pay more tax in future

d) Current tax

It is the amount of tax determined to payable in respect of taxable income.

e) Tax Expense

Current Tax Exp (+) Def. Tax Liab (-) Def. Tax Asset.

Ex. ① Preliminary Exp Amount to ₹ 30,000.

Full Exp Allowed in A/c's

But in tax it is **unamortized**.

Tax Rate @ 30%.

Not allowed in current year, but will be allowed in future.

Calculate Deferred Tax.

Particulars	A/c's	Tax	Diff	Def. tax @ 30%.
Preliminary Exp	30000	NIL	30000	9000 → DTA.
		Exp ↓ Profit ↑ Agg Tax ↑		DTA TO P/L
		Future mein kum kum (∴ DTA)		

② Int Exp Accrued in curr. year = 3,00,000, allowed as exp in A/c's.

Since it was not paid, it was disallowed in curr. year in tax.

Tax Rate = 25%.

Calculate Def. Tax?

Particulars	A/c's	Tax	Diff	DT @ 25%.
Int Exp	3L	NIL	3L	75,000 → DTA.
		Exp ↓ Profit ↑ Agg Tax ↑		
		Future mein kum (∴ DTA)		

④ BBV Ltd purchased an PPE costing 10L on 01.04.24. In tax 100% depreciation is allowed in the year of purchase. In Ac's SLM method is followed and life is 4 years.

Calculate D.T for all 4 years. Tax Rate @ 30%.

Solⁿ:

Year 1 (24-25)

	Ac's	Tax	Diff	D.T @ 30%
Depn Exp	2.5L (10L/4Yrs)	10L Exp ↑ Profit ↓	7.5L	2.25L → <u>DTL</u>
		Aziz Tax ↓ Future tax zyada (∴ DTL)		PL 225000 TO DTL 225000

Year 2 (25-26)

	Ac's	Tax	Diff	D.T @ 30%
Depn Exp	2.5L	NIL Exp ↓ Profit ↑	2.5L	75K
		Aziz Tax ↑ Future mein hum (∴ DTL)		DTL Reverse TO PL
				DTL Reverse

Year 3 (26-27)

	Ale's	Tax	Diff	DT @ 30%	
Depn Exp	2.5L	NIL	2.5L	75000	
		Exp ↓		DTL Reversal	75k
		Profit ↑		TO PIL	75k
		Tax ↑			
		Future mein kuma		(DTL)	
				DTL Reversal	

Year 4 (27-28)

	Ale's	Tax	Diff	DT @ 30%	
Depn Exp	2.5L	NIL	2.5L	75000	
		Exp ↓		DTL Reversal	75k
		Profit ↑		TO PIL	75k
		Tax ↑			
		Future mein kuma		(DTL)	
				DTL Reversal	

check

Yr 1	DTL create	225000
Yr 2	DTL Rev	(75k)
Yr 3	—	(75k)
Yr 4	—	(75k)
		<u>NIL</u>

Eg 5 Preliminary Exp = 75000

100% claimed in Ac's in curr. yr (24-25)

But unamortised in Tax. In tax Books it was claimed in 25-26

Calculate Def. Tax. Tax Rate 30%.

yr 1 (24-25)

Particulars	Ac's	Tax	Diff	D.T @ 30%
Prel. Exp	75000	Nil	75000	22500 → D.T.A.
		Exp ↓		↓
		Profit ↑		D.T
		Aaj Tax ↑		TO P/L
		Future mein kum (∴ DTA)		

yr 2

Ac's	Tax	Diff	D.T @ 30%
Nil	75000	75000	22500
	Exp ↑		P/L
	Profit ↓		TO DTA Reversal.
	Aaj Tax ↓		
	Future mein zyada (∴ DTA)		DTA Reverse

Eg: Fines & Penalties paid is ₹50,000.

Exp was Booked in Ac's.

In Tax, Fines & penalties is permanently disallowed.

Calculate Def. Tax Tax Rate = 30%.

Sal ⁿ	Ac's	Tax	Diff	D.T @ 30%
Fines & Penalties	50000	NIL	50000	15000
			Permanent Diff (No D.T). why?	It will never reverse.

Illus 1

Particulars	Ac's	Tax	Diff	D.T @ 50%
① Deprn	2,00,000	5,00,000	3,00,000 (Timing)	150000 → DTL
		Exp ↑ Profit ↓ Aaj Tax ↓ Future mein zyada		
② Preliminary Exp	30000	NIL	30,000 (Timing)	15000 → DTA
		Exp ↓ Profit ↑ Aaj Tax ↑ Future mein kam		
				<hr/> 1,35,000 → Net DTL

Illus 7 → H.W

Illus 4 (LDR)

Year 1 (x0-x1)

Particulars	Ali's	Tax	Diff	DT @ 35%
Revenue	11,00,000	7,00,000	4,00,000	140000 → DTL
		Income ↓	(Timing)	PL
		Profit ↓		TO DTL
		Aaj tax ↓		
		Future mein zyada (∴ DTL)		

Year 2 (x1-x2)

Revenue	16,00,000	18,00,000	200000	70000 → DTL Reverse
		Income ↑	(Timing)	DTL Reversal
		Profit ↑		TO PL
		Aaj Tax ↑		
		Future mein kam (DTL)		DTL Reversal

Year 3 (x2-x3)

Revenue	21,00,000	23,00,000	200000	70000 → DTL Reverse
		Income ↑	(Timing)	
		Profit ↑		
		Aaj Tax ↑		
		Future mein kam (DTL)		DTL Reversal

Illus 8

XI-XII

Particulars	Ac's	Tax	Diff	D.T @ 30%
Gst Exp	5,00,000	NIL	500000	150000 → ∴ DTA credit
		Exp ↓ Profit ↑ Ag. tax ↑	(Timing)	DTA TO P/L
		Future mein hum (∴ DTA)		

Ques 2 (LDR)

(A) Statement of Profit & Loss for the year ended 31st March '19 (Extract)

Ac's

Profit Before Depreciation & Taxes		640000
Less: Depreciation as per Ac's (280000 + 30000) ^{120000/4yrs}		(310000)
Profit Before Tax		330000
Less: Tax Exp		
Current Tax (WN1)	132000	
Deferred Tax (WN2)	<u>NIL</u>	(132000)
Profit After Tax		<u>198000</u>

Q.11 Calcⁿ of Curr. Tax (it is tax paid on taxable profit)

<u>Tax Books</u>	Profit Before Dep & Tax	640000
	less: Dep'n as per tax (190000 + 120000)	<u>(310000)</u>
	PBT (Taxable profit)	330000
	@ 40%	<u>132000</u>
		Current Tax

Q.12 Def. Tax

Particulars	Ac's	Tax	Diff	D.T @ 40%
① Dep'n	280000	190000	90000	36000 → DTA

Exp ↓
Profit ↑

Ag Tax ↑

Future mein hum (∴ DTA)

② Dep'n	30000	120000	90000	36000 → DTL
	<u>(120000)</u> 44%			

Exp ↑
Profit ↓

Ag tax ↓

Future mein zyada (∴ DTL)

NET Def Tax

NIL

Disclosure requirements

③ → Read from Over. Bank

Ques 3

i) Particulars

<u>Exp (Pg. 19-20)</u>	<u>Ali's</u>	<u>Tax</u>	<u>Diff</u>	<u>D.T @ 30%</u>
	20 lakhs	Nil	20L	6L → DTA
	Exp ↓			} Extra Part
	Profit ↑			
	Aaj Tax ↑			
	Future mein kama (∴ DTA)			

<u>Exp (20-21)</u>	<u>Ali's</u>	<u>Tax</u>	<u>Diff</u>	<u>D.T @ 30%</u>
	Nil	20 lakhs	20	6L → DTA
	Exp ↑		(Timing)	Reversal.
	Profit ↓			
	Aaj Tax ↓			
	Future mein zyada (∴ DTA)			

	<u>Ali's</u>	<u>Tax</u>	<u>Diff</u>	<u>DT</u>
ii) Interest accrued & paid before due date	20L	20L	No Diff	No DT

iii) Donation	10L	Nil	10L	No DT
			(Permanent Diff)	

Q6 (CWR)

Particulars	Ate's	Tax	Diff	D.T @ 40%
i) Depr	70L	42L	28L	11.2 lakhs → DTA create

Exp ↓
Profit ↑
Aaj Tax ↑
Future mein hum (∴ DTA)

ii) Exp (P.y. 19-20)	Ate's	Tax	Diff	D.T @ 40%	}	Extra Part
	14 lakhs	Nil	14L	5.6L → DTA		

Exp ↓
Profit ↑
Aaj Tax ↑
Future mein hum (∴ DTA)

Exp (20-21)	Ate's	Tax	Diff	D.T @ 40%
	Nil	14 lakhs	14	5.6L → DTA

Exp ↑ (Timing) Reversal.
Profit ↓
Aaj Tax ↓
Future mein zyada (∴ ~~DTA~~)

iii) Share issue	Ate's	Tax	Diff	D.T @ 40%
Extra Pg (19-20)	70L	7L (1/10)	63L (Timing)	25.2L (DTA)

Exp ↓
Profit ↑
Tax ↑
Future mein hum (∴ DTA)

*

DT @ 40%

Cy (20-21)

Nil

7L

7L

28L → DTA Reversal

Exp ↑

(Timing)

Profit ↓

Tax ↓

Future mein zyada (Tax)

DTA Reversal

iv) Repairs

At's

Tax

Diff

DT @ 40%

1st yr (20-21)

70L

140L

70L

28L → DTL create.

(140/24x)

Exp ↑

(Timing)

Profit ↓

Aaj Tax ↓

Future mein zyada (∴ DTL)

Q7 (LDF)

QTD → plz practice

2. DTA on carry forward losses & unabsorbed deprⁿ in Tax

- Carry forward losses result in less tax in future \therefore create DTA.
- Unabsorbed deprⁿ will also result in less tax in future (as we will take the deprⁿ exp benefit in future in tax) \therefore create DTA.

eg: yr 24-25 Co. has a tax loss of 5L (Tax Rate 30%)

$$\text{Create DTA} = 5L \times 30\% = 1.5L$$

yr 25-26

Co. has a profit of 2L

~~Tax @ 30% (60k)~~

DTA Reverse (60k)

we will adjust past year loss

$$\text{DTA Bal} = 1.5L (-) 60k = 90k$$

yr 26-27

Co. has a profit of 4L

~~Tax @ 30% (1.2L)~~

DTA Reverse (90k)

Bill. Tax Pay (30k)

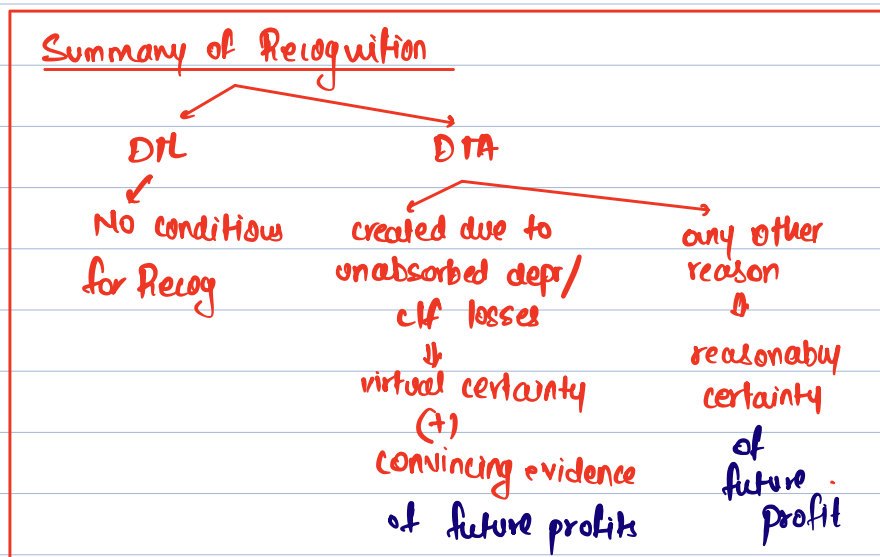
3. Recognition of DTA & DTL

- DTA \rightarrow
- 1) DTA are recognised & clfd only to the extent there is reasonable certainty of their realisation (i.e. future expected profit)
 - 2) DTA arising due to unabsorbed deprⁿ or clfd losses should be recognised only when there is virtual certainty supported by

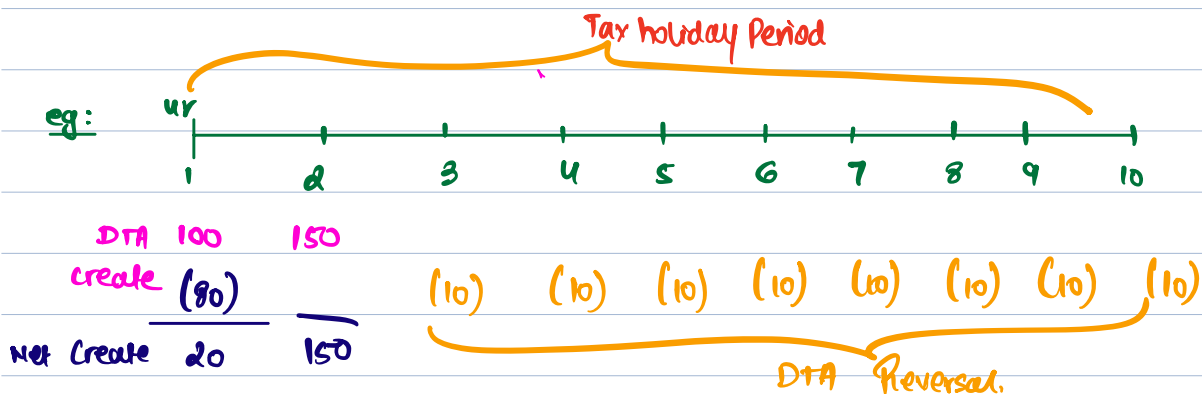
convincing evidence that sufficient future taxable profit will be available against which such DTA can be realised.

eg: future export orders,
projection of future profits made by enterprise, etc.

DTL → There are no pre-conditions to recognise DTL



4. DT implication in section 80-IA & 80-IB of income tax Act



- DTA/DTL in respect of timing diff which reverse during tax holiday period should not be recognised.

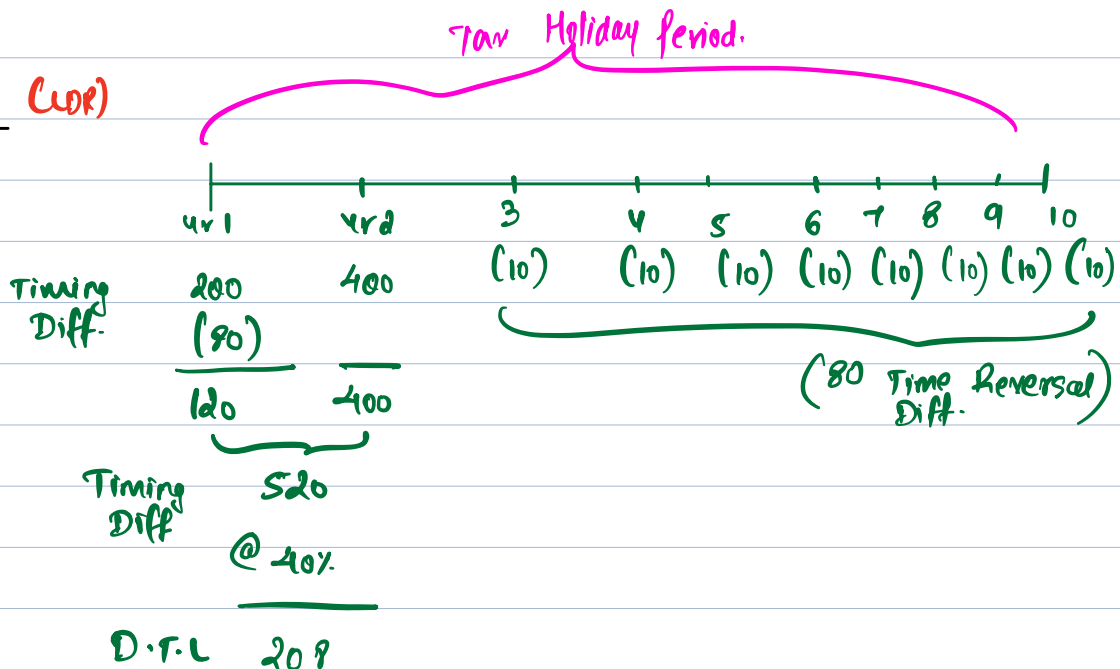
- timing diff which originate first should be considered to reverse first

Illus 3 (LDR) → clf losses

120000 x 40% = 48000
 48000 - 40000 = 8000

	31.3.21	31.3.22	31.3.23
Profit/(loss)	(2,00,000)	100000	120000
DTA @ 40%	80000	(40000) DTA Reverse	(20000) DTA Reverse
Curr. Tax to be paid	—————→		(8000)
Profit/(loss) after Tax	(120000)	60000	72,000

Illus 6 (LDR)



Illus 9 (contd)

<u>In Tax Books</u>		(Cost 4cr ⇒ SP 8cr)
Profit	4cr	
Cap Gain @ 20%	0.8cr	

In A/c's

Cost of Invest	10cr
less: Sale	(8cr)
Net	2cr
carrying Amt	

Particulars	A/c's	Tax	Diff
Income	NIL	4cr	4cr → DTA @ 40%

Income ↑

Profit ↑

Agg tax ↑

Future mein kam

As per AS 22, deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Since in current scenario, due to Covid 19 the portfolio companies are not performing well, thus the company may not have sufficient future taxable income which will reverse deferred tax assets. Therefore, the company should not recognise DTA of ₹ 0.8 Crores and company should recognize only current tax liability of ₹ 0.8 Crores.

Illus 2*

Tax Exp

Current Tax	26250	
Deferred Tax Liab	108000	134250

① Def Tax

	A/c's	Tax	Diff	DT@ 20%
Income	600000	60000	540000	108000 → DTL
		Profit ↓		
		Tax ↓		
		Future mein zyada		

② Curr. Tax

i) Taxable profit x Tax Rate

$$60000 \times 20\% = 12000$$

OR

ii) Book profit x MAT Rate = 26250
 $350000 \times 7.5\%$

↑
whichever is
higher

5. Review unrecog DTA

At each balance sheet, date Company should reassess unrecognised DTA. If future taxable profit is now reasonably certain, then company can record previous years unrecognised DTA.

6. Tax Rates for Curr. Tax & Def tax

→ For Curr. Tax → use Tax Rate that is applicable to curr. period.

For Def. Tax → use future tax rate if announced / proposed in curr. year.

↙ If not available then use curr. year rate.

eg. C7 24-25

↓
Tax Rate 30%

→ In 24-25
govt proposed 35% rate for future years.

Ans:

Curr. Tax @ 30%

Def tax @ 35%

