

FR.

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Channel

Discussion Group.



Q 1

1. An asset which cost ₹ 150 has a carrying amount of ₹ 100. Cumulative depreciation for tax purposes is ₹ 90 and the tax rate is 25%. Calculate the tax base and the corresponding deferred tax or liability, if any.

Solution.

1. Calculation of Deferred Tax

Carrying Amount	100	
- Tax Base	(60)	(150 - 90)
Temporary Difference	40	(TTD) (Taxable Temporary difference)
x Tax Rate	x 25%	
Deferred Tax Liability.	10	

Q 2

Question: Asset Purchased at Rs. 200

Depreciation as per Accounts : 50% p.a.

Tax : 100% in the year of Purchase

Tax Rate = 30%

Calculate Deferred Tax.

Solution:

1. Calculation of Deferred Tax

Particulars	y1	y2
Carrying Amount	100	-
- Tax Base	-	-
Temporary Difference	100	-
x Tax Rate	x 30%	-
DTL (Closing)	30	-
- Opening Balance	-	(30)
DTL (During current year)	30	(30)
	↓	↓

Carrying Amt

Par	y1	y2
Opening	200	100
(→ Depn)	(100)	(100)
Closing	100	-

Carrying Amt

Par	y1	y2
Opening	200	-
(→ Depn)	(200)	-
Closing	-	-

DTL created

Deferred Tax Exp 30
To DTL 30

DTL reversed

DTL 30
To Deferred Tax Exp 30

Q 3

4. A company had purchased an asset at ₹ 1,00,000. Estimated useful life of the asset is 5 years and depreciation rate is 20% SLM. Depreciation rate for tax purposes is 25% SLM. The operating profit is ₹ 1,00,000 for all the 5 years. Tax rate is 30% for the next 5 years. Calculate the Book Value as per financial and tax purposes and then DTL.

1. Carrying Amount:

[₹ '000]

Particulars	1	2	3	4	5
Cost	100	80	60	40	20
- Depreciation	(20)	(20)	(20)	(20)	(20)
	80	60	40	20	-

2. Tax Base:

Particulars	1	2	3	4	5
Cost	100	75	50	25	
- Depreciation	(25)	(25)	(25)	(25)	
	75	50	25	-	

3. Calculation of Deferred Tax

Particulars	1	2	3	4	5
Carrying Amount	80	60	40	20	-
- Tax Base	(75)	(50)	(25)	-	-
Temporary Difference	5	10	15	20	
× Tax Rate	×30%	×30%	×30%	×30%	×30%
DTL [Closing] (B/S)	1.5	3	4.5	6	-
DTL [Opening]	-	(1.5)	(3)	(4.5)	(6)
DTL (current year) (P/L)	1.5	1.5	1.5	1.5	(6)

NOTE: operating profit extra information

Q 4

Ind AS 12 (RTP MAY 21)

19. The entity has an identifiable asset ASSOTA with a carrying amount of ₹ 10,00,000. Its recoverable amount is ₹ 6,50,000. The tax base of ASSOTA is ₹ 8,00,000 and the tax rate is 30%. Impairment losses are not tax deductible. Entity expects to continue to earn profits in future.

For the identifiable asset ASSOTA, what would be the impact on the deferred tax asset/liability at the end of the period?

(WN-1): Revised Carrying Amount

a) Impairment loss

i) Recoverable Amt	6,50,000
ii) Carrying Amt	(10,00,000)
	<u>(3,50,000)</u>

b) Revised Carrying Amt

Carrying Amt	10,00,000
- Impairment loss	(3,50,000)
	<u>Revised Carrying Amt 6,50,000</u>

1. Calculation of Deferred Tax

Particulars

Carrying Amount	6,50,000
- Tax Base	(8,00,000)
	<u>Temporary Difference (1,50,000)</u>
x Tax Rate	x 30%
	<u>DTA [Closing] (B/S) (45,000)</u>

Q 5

7. X Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2018, the following events affected the tax position of the group:
- * (i) Y Ltd., a wholly owned subsidiary of X Ltd., made a loss adjusted for tax purposes of ₹ 30,00,000. Y Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Y Ltd. to transfer the tax loss to other group companies. However, it allows Y Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of X Ltd. do not consider that Y Ltd. will make taxable profits in the foreseeable future.
 - (ii) Just before 31st March, 2018, X Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore, X Ltd. recognised a provision for closure costs of ₹ 20,00,000 in its statement of financial position as at 31st March, 2018. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31st March 2019, X Ltd. expects to make taxable profits which are well in excess of ₹ 20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than ₹ 20,00,000.
 - (iii) During the year ended 31st March, 2017, X Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for X Ltd. from 1st January, 2018. The directors of X Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.
 - (iv) On 1st April, 2017, X Ltd. borrowed ₹ 1,00,00,000. The cost to X Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April, 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March, 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of X Ltd. group at 31st March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%.

ii) Provision for closure cost:

<u>Particulars</u>	
Tax Base	-
- Carrying Amount	(20,00,000)
Temporary Difference	(20,00,000)
x Tax Rate	x 20%
DTA	(4,00,000)

iii) Development Cost(WN-1): Carrying amount on Balance sheet Date

CA on 1st Jan	16,00,000
(-) Depreciation	(80,000)
$\left(\frac{16,00,000}{5} \times \frac{3}{12} \right)$	
CA on 31st March	15,20,000

Calculation of Deferred Tax

<u>Particulars</u>	<u>Amnt</u>
Carrying Amount	15,20,000
- Tax Base	-
Temporary Difference	15,20,000
x Tax Rate	x 20%
DTL	3,04,000

iv) Loan taken (with transaction cost)

<u>Particulars</u>	<u>Amnt</u>
Tax Base	10,00,000
- Carrying Amount	(10,780,000)
Temporary Difference	(780,000)
x Tax Rate	x 20%
DTA	(1,56,000)

(WN-2) Carrying Amount

Loan (1-4-17)	9,80,000
[10,00,000 - 200,000]	
+ Interest @ 10%	98,000
- Payment	-
Loan (31-3-18)	10,780,000

RP Notes:

AccountsTax

1-4-17	BANK	100L	BANK	100L
	To Loan	100L	To Loan	100L
	Loan	2L	P&L	2L
	To Bank	2L	To Bank	2L

31-3-20 CA = 13 043 800

TB = 100,00,000

Amortisation table:

<u>Year</u>	<u>opening</u>	<u>EIR@10%</u>	<u>Payment</u>	<u>Closing</u>
17-18	9800,000	980,000	-	10780,000
18-19	10780,000	10780,000	-	11858000
19-20	11858000	11585800	-	13 043 800

9] Losses

CA	NIL
TB	(30,00,000)
TD	(30,00,000)
x TR	x 20%
DTA	(600,000)

Potential Deferred Tax asset can be created for group.

Still NO DTA, it can not be used (reversed) in future

- (i) The tax loss creates a potential deferred tax asset for the group since its carrying value is nil and its tax base is ₹ 30,00,000.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

Q 6

8. PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:

- QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of ₹ 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.
- During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was ₹ 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.
- On 1st April, 2017, PQR Ltd. borrowed ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be ₹ 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of ₹ 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

9] Losses:

CA	Nil
TB	(30,00,000)
TD	(30,00,000)
x TR	x 30%
DTA	(900,000)

Potential deferred tax asset can be created for group.

Still NO DTA, it can not be used (reversed) in future

- The tax loss creates a potential deferred tax asset for the PQR Ltd. group since its carrying value is nil and its tax base is ₹ 30,00,000. However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

11] Development Cost:

(WN-1): carrying amount on Balance sheet Date

CA on 1st Jan	1600,000
↔ Depreciation	(80,000)
$\left(\frac{1600,000}{5} \times \frac{3}{12} \right)$	
CA on 31st March.	1520,000

Calculation of Deferred Tax

<u>Particulars</u>	<u>Amnt</u>
Carrying Amount	1520,000
- Tax Base	-
Temporary Difference	1520,000
x Tax Rate	x 30%
DTL	456,000

iii) Loan taken (with transaction cost)

<u>Particulars</u>	<u>Amnt</u>
Tax Base	10,00,000
- Carrying Amount	(10,780,000)
Temporary Difference	(780,000)
x Tax Rate	x 30%
DTA	(234,000)

(WN-2) Carrying Amount

Loan (1-4-17)	9800,000
[100,00,000 - 200,000]	
+ Interest @ 10%	980,000
- Payment	-
Loan (31-3-18)	10,780,000

Q 7

Illustration 9

K Ltd prepares consolidated financial statements to 31st March each year. During the year ended 31st March 20X2, K Ltd entered into the following transactions:

- (a) On 1st April 20X1, K Ltd purchased an equity investment for ₹ 2,00,000. The investment was designated as fair value through other comprehensive income. On 31st March 20X2, the fair value of the investment was ₹ 2,40,000. In the tax jurisdiction in which K Ltd operates, unrealised gains and losses arising on the revaluation of investments of this nature are not taxable unless the investment is sold. K Ltd has no intention of selling the investment in the foreseeable future.
- (b) On 1st August 20X1, K Ltd sold products to A Ltd, a wholly owned subsidiary operating in the same tax jurisdiction as K Ltd, for ₹ 80,000. The goods had cost to K Ltd for ₹ 64,000. By 31st March 20X2, A Ltd had sold 40% of these goods, selling the remaining during next year.
- (c) On 31st October 20X1, K Ltd received ₹ 2,00,000 from a customer. This payment was in respect of services to be provided by K Ltd from 1st November 20X1 to 31st July 20X2. K Ltd recognised revenue of ₹ 1,20,000 in respect of this transaction in the year ended 31st March 20X2 and will recognise the remainder in the year ended 31st March 20X3. Under the tax jurisdiction in which K Ltd operates, ₹ 2,00,000 received on 31st October 20X1 was included in the taxable profits of K Ltd for the year ended 31st March 20X2.

Explain and show how the tax consequences (current and deferred) of the three transactions would be reported in its statement of profit or loss and other comprehensive income for the year ended 31st March 20X2. Assume tax rate to be 25%.

a) Calculation of Deferred Tax

Particulars	Amount		
Carrying Amount	240,000	Deferred Tax Exp	10,000
- Tax Base	(200,000)	To DTL	10,000
Temporary Difference	40,000		
x Tax Rate	x 25%	OCI	10,000
DTL	10,000	To DTE	10,000

- (a) Because the unrealised gain on revaluation of the equity investment is not taxable until sold, there are no current tax consequences. The tax base of the investment is ₹ 2,00,000. The revaluation creates a taxable temporary difference of ₹ 40,000 (₹ 2,40,000 – ₹ 2,00,000).

This creates a deferred tax liability of ₹ 10,000 (₹ 40,000 x 25%). The liability would be **non-current**. The fact that there is no intention to dispose of the investment does not affect the accounting treatment. Because the unrealised gain is reported in other comprehensive income, the related **deferred tax expense is also reported in other comprehensive income.**

c) Calculation of Deferred Tax

<u>Particulars</u>	<u>Amnt</u>
Tax Base	-
- Carrying Amount	(80,000)
Temporary Difference	(80,000)
x Tax Rate	x 25%
DTA	(20,000)

$$\text{Current tax: } 200,000 \times 25\% \\ = 50,000$$

d) Inventory

$$\text{Current tax: } 80,000 - 64,000 = 16,000 \times 25\% \\ = 4,000$$

Deferred Tax

CA	(Cost Price: 64,000 x 60%)	38,400
TB	(Selling Price 80,000 x 60%)	(48,000)
TD		(9,600)
x TA		x 25%
DTA		(2,400)

Q 8

Illustration 8

A Ltd prepares financial statements to 31 March each year. The rate of income tax applicable to A Ltd is 20%. The following information relates to transactions, assets and liabilities of A Ltd during the year ended 31 March 20X2:

- (i) A Ltd has a 40% shareholding in L Ltd. A Ltd purchased this shareholding for ₹ 45 Cr. The shareholding gives A Ltd significant influence over L Ltd but not control and therefore A Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of A Ltd's investment in L Ltd was ₹ 70 Cr on 31 March 20X1 and ₹ 75 Cr on 31 March 20X2. In the tax jurisdiction in which A Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.
- (ii) A Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31 March. On 31 March 20X1, carrying value of the building (after revaluation) was ₹ 40 Cr and its tax base was ₹ 22 Cr. During the year ended 31 March 20X2, A Ltd charged depreciation in its statement of profit or loss of ₹ 2 Cr and claimed a tax deduction for tax depreciation of ₹ 1.25 Cr. On 31 March 20X2, the building was revalued to ₹ 45 Cr. In the tax jurisdiction in which A Ltd operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Basis the above information, you are required to compute:

- (a) The deferred tax liability of A Ltd at 31 March 20X2
- (b) The charge or credit to both profit or loss and other comprehensive income relating to deferred tax for the year ended 31 March 20X2

a) Calculation of Deferred Tax

Particulars	Investment in L Ltd		Head office Building	
	31-3-21	31-3-22	31-3-21	31-3-22
Carrying Amount	70 Cr	75 Cr	40	45
- Tax Base	(45 Cr)	(45 Cr)	22	(20.75)
Temporary Difference	25 Cr	30 Cr	18	24.25
x Tax Rate	x 20%	x 20%	x 20%	x 20%
DTL	5 Cr	6 Cr	3.6	4.85
				(22-1.25)

DTL on 31-3-22 =

Investment in L Ltd 6 Cr
 Head office Building + 4.85 Cr = 10.85 Cr.

Charge to P&L for 31-3-X2 =

Investment in L Ltd (6cr - 5cr) = 1cr

Head office Building: (X1 - X2) = 1.25 DTL (4.85cr - 3.6 Cr)



To be charged to P/L

Closing Balance on 31-3-X2
if there is no revaluation



Carrying Amount (40-2)	38
- Tax Base	(20.75)
Temporary Difference	17.25
x Tax Rate	x 20%
DTL 31-3-X2	3.45
DTL 31-3-X1	(3.6)
Reversal of DTL	(0.15)

To be charged to OCI

Balance DTL on
Revaluation gain



Carrying Amount	7
- Tax Base	-
Temporary Difference	7
x Tax Rate	x 20%
DTL 31-3-X2	1.4
DTL 31-3-X1	-
DTL (OCI)	1.4

Q 9

Illustration 7

A Limited recognises interest income in its books on accrual basis. However, for income tax purposes the method is 'cash basis'. On December 31, 20X1, it has interest receivable of ₹10,000 and the tax rate was 25%. On 28th February, 20X2, the finance bill is introduced in the legislation that changes the tax rate to 30%. The finance bill is enacted as Act on 21st May, 20X2.

Discuss the treatment of deferred tax in case the reporting date of A Limited's financial statement is 31st December, 20X1 and these are approved for issued on 31st May, 20X2.

Calculation of Deferred Tax

<u>Particulars</u>	<u>Amount</u>
Carrying Amount	10,000
- Tax Base	-
Temporary Difference	10,000
× Tax Rate	× 25%
DTL	2500

It will not recognise the deferred tax liability @ 30% because as on December 31, 20X1, this tax rate was neither substantively enacted or enacted on the reporting date. However, if the effect of this change is material, A Limited should disclose this difference in its financial statements.

Q 10

Ind AS 12 (RTP Nov 19)

19. An entity is finalising its financial statements for the year ended 31st March, 20X2. Before 31st March, 20X2, the government announced that the tax rate was to be amended from 40 per cent to 45 per cent of taxable profit from 30th June, 20X2.

The legislation to amend the tax rate has not yet been approved by the legislature. However, the government has a significant majority and it is usual, in the tax jurisdiction concerned, to regard an announcement of a change in the tax rate as having the substantive effect of actual enactment (i.e. it is substantively enacted).

After performing the income tax calculations at the rate of 40 per cent, the entity has the following deferred tax asset and deferred tax liability balances:

Deferred tax asset	₹ 80,000
Deferred tax liability	₹ 60,000

Of the deferred tax asset balance, ₹ 28,000 related to a temporary difference. This deferred tax asset had previously been recognised in OCI and accumulated in equity as a revaluation surplus.

The entity reviewed the carrying amount of the asset in accordance with para 56 of Ind AS 12 and determined that it was probable that sufficient taxable profit to allow utilisation of the deferred tax asset would be available in the future.

Show the revised amount of Deferred tax asset & Deferred tax liability and present the necessary journal entries.

Deferred Tax		
DTA : 80,000 (40%)		DTL : 60,000 (40%)
$\frac{28,000}{40\%} = 70,000$ (OCI) Revised DTA @ 45% $70,000 \times 45\%$ 31,500 ↑ in DTA = 3,500 DTA 3,500 To DTE 3,500 (OCI)	$\frac{52,000}{40\%} = 130,000$ (PIL) Revised DTA @ 45% $130,000 \times 45\%$ 58,500 ↑ in DTA = 6,500 DTA 6,500 To DTE 6,500 (PIL)	$\frac{60,000}{40\%} = 150,000$ (PIL) Revised DTL @ 45% $150,000 \times 45\%$ 67,500 ↑ in DTL = 7,500 DTE 7,500 To DFL 7,500

Q 11

3. ABC Ltd. acquired 50% of the shares in PQR Ltd. on 1st January, 20X1 for ₹ 1000 crore. By 31st March, 20X5 PQR Ltd. had made profits of ₹ 50 crore (ABC Ltd.'s share), which remained undistributed. Based on the tax legislation in India, the tax base of the investment in PQR Ltd. is its original cost. Assume the dividend distribution tax rate applicable is 15%. Show deferred tax treatment.

CA	1050	(1000 + 50)
TA	(1000)	
TD	50	
x TR	x 15%	
DTL	7.5	(as its associate)

Q 12

2. On 1st April 20X1, ABC Ltd acquired 100% shares of XYZ Ltd for ₹ 4,373 crore. By 31st March, 20X5, XYZ Ltd had made profits of ₹ 5 crore, which remain undistributed. Based on the tax legislation in India, the tax base investment in XYZ Ltd is its original cost. Assume the dividend distribution tax rate applicable is 15%. Show deferred tax treatment.

CA	4378	$4373 + (5 \times 100\%)$
TB	(4373)	
TD	5	
x TR	x 15%	
NO DTL	0.75	

A taxable temporary difference of ₹ 5 therefore exists between the carrying value of the investment in XYZ at the reporting date of ₹ 4,378 (₹ 4,373 + ₹ 5) and its tax base of ₹ 4,373. Since a parent, by definition, controls a subsidiary, it will be able to control the reversal of this temporary difference, for example - through control of the dividend policy of the subsidiary. Therefore, deferred tax on such temporary difference is generally not provided unless it is probable that the temporary will reverse in the foreseeable future

Q 13

Illustration 2

On 1st April 20X1, S Ltd. leased a machine over a 5 year period. The present value of lease liability is ₹ 120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are ₹ 30 Cr payable starting 31st March 20X2. The tax law permits tax deduction on the basis of payment of rent.

Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 20X2.

Deferred Tax

TB	-
CA	(3.6)
<hr/>	
TD	(3.6)
x TR	x 30%
DTA	(1.08)

(WN-1): ROU Asset

CA	1-4-x1	120
- Depreciation		(24)
		<hr/>
		96

(WN-2) Lease Liability

CA	1-4-x1	120
+ Interest (120 x 8%)		9.6
- Payments		(30)
		<hr/>
		99.6

(WN-3): Net Carrying Amount

CA OF ROU Asset	96	
CA OF Lease Liab.	(99.6)	
<hr/>		
		(3.6)

Q 14

Illustration 4

On 1st April 20X1, P Ltd. had granted 1 Cr share options worth ₹ 4 Cr subject to a two-year vesting period. The income tax law permits a tax deduction at the exercise date of the intrinsic value of the options. The intrinsic value of the options at 31st March 20X2 was ₹ 1.60 Cr and at 31st March 20X3 was ₹ 4.60 Cr. The increase in the fair value of the options on 31st March 20X3 was not foreseeable at 31st March 20X2. The options were exercised at 31st March 20X3.

Give the accounting for the above transaction for deferred tax for period ending 31st March, 20X2 and 31st March, 20X3. Assume that there are sufficient taxable profits available in future against any deferred tax assets. Tax rate of 30% is applicable to P Ltd.

<u>Deferred Tax:</u>	<u>31-3-X2</u>	<u>31-3-X3</u>
CA	-	-
TA $(1.6 \times 1/2)$	(0.8)	-
TD	(0.8)	-
x TR	x 30%	x 30%
DTA	0.24	-
	<u>creation</u>	<u>reversal</u>
DTA	0.24	DTE
To DTE	0.24	To DTA
		0.24

Q 15

5. A Ltd. acquired B Ltd. The following assets and liabilities are acquired in a business combination:

₹ 000's

	Fair Value	Carrying amount	Temporary Difference
Plant and Equipment	250	260	(10)
Inventory	120	125	(5)
Debtors	<u>200</u>	<u>210</u>	<u>(10)</u>
	570	595	(25)
9% Debentures	<u>(100)</u>	<u>(100)</u>	
	470	495	
Consideration paid	<u>500</u>	<u>500</u>	
Goodwill	<u>30</u>	<u>5</u>	<u>(25)</u>

Calculate Deferred Tax Asset.

(₹'000)

Deferred Tax:

CA	470
TB	(495)
TD	(25)
x TR	x 30%
DTA	(7.5)

Plant & Equipment	250	
Inventory	120	
Debtors	200	
DTA	7.5	
Goodwill.	22.5	
To 9% Debenture		100
To Bank		500

Q 16

10. On 1 January 2020, entity H acquired 100% share capital of entity S for ₹15,00,000. The book values and the fair values of the identifiable assets and liabilities of entity S at the date of acquisition are set out below, together with their tax bases in entity S's tax jurisdictions. Any goodwill arising on the acquisition is not deductible for tax purposes. The tax rates in entity H's and entity S's jurisdictions are 30% and 40% respectively.

Acquisitions	Book values ₹'000	Tax base ₹'000	Fair values ₹'000
Land and buildings	600	500	700
Property, plant and equipment	250	200	270
Inventory	100	100	80
Accounts receivable	150	150	150
Cash and cash equivalents	130	130	130
Accounts payable	(160)	(160)	(160)
Retirement benefit obligations	(100)	-	(100)

You are required to calculate the deferred tax arising on acquisition of Entity S. Also calculate the Goodwill arising on acquisition.

1. Net Assets:

Particulars	Tax Base	Fair Value
Land & Bldg	500	700
PPE	200	270
Inventory	100	80
A/c receivable	150	150
Cash	130	130
Total Asset	1080	1330
A/c payable	(160)	(160)
Retirement obligation	-	(100)
Net Assets	920	1070

2. Deferred Tax

CA	1070
TA	(920)
TD	150
- TR	x 40%
DTL	60

3. Goodwill

Fair value of Net Assets	1070
(-) DTL	(60)
	1010
(-) Purchase consideration	(1500)
Goodwill	(490)

1.49 min

Q 17**Pharma Dorman**

(MTP : AUG 2018)

4. (a) In March 2018, Pharma Ltd. acquires Dorman Ltd. in a business combination for a total cost of Rs. 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

Item		Rs. in lakhs	
Assets	TB	CA	FV
Cash		780	780
Receivables (net)	5500	5,200	5200
Plant and equipment	6000	7,000	8000
Deferred tax asset		360	
Liabilities	Brand	NIL	4300
Payables		1,050	(1050)
Borrowings		4,900	(4900)
Employee entitlement liabilities	NIL	900	(900)
Deferred tax liability		300	
			11430

The plant and equipment has a fair value of Rs. 8,000 lakhs and a tax written down value of Rs. 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of Rs. 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of Rs. 4,300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to:

- Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)
- Calculate the goodwill that should be accounted on consolidation. **(10 Marks)**

<u>Particulars</u>	<u>New CA (Fair value)</u>
Cash	780
Receivable	5200
PPE	8000
Brand	4300
Payables	(1050)
Borrowing	(4900)
Employee Lab	(900)
DTA :	360
DTL :	(1890)
	<u>9900</u>

Goodwill

Pc	12000
Less: Net Assets taken	(9900)
	<u>2100</u>

	<u>PPE</u>	<u>Brand</u>	<u>Receivable</u>		<u>EBL</u>
CA	8000	4300	5200	TB	-
TB	(6000)	-	(5500)	CA	(900)
TD	2000	4300	300	TD	(900)
XTA	x 30%	x 30%	x 30%	XTA	x 30%
	<u>600</u>	<u>1290</u>	<u>(90)</u>		<u>(270)</u>

$$DTL : 600 + 1290 = 1890$$

$$DTA : 90 + 270 = (360)$$

$$DTL \quad 1530$$

Q 18

Illustration 3

On 1 April 20X1, A Ltd. acquired 12 Cr shares (representing 80% stake) in B Ltd. by means of a cash payment of ₹ 25 Cr. It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in B Ltd. at 1 April 20X1 can be used for this purpose. On 1 April 20X1, the market value of a B Ltd. share was ₹ 2.00

On 1 April 20X1, the individual financial statements of B Ltd. showed the net assets at ₹ 23 Cr.

The directors of A Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of B Ltd. at 1 April 20X1. The following matters emerged:

- Property having a carrying value of ₹ 15 Cr at 1 April 20X1 had an estimated market value of ₹ 18 Cr at that date.
- Plant and equipment having a carrying value of ₹ 11 Cr at 1 April 20X1 had an estimated market value of ₹ 13 Cr at that date.
- Inventory in the books of B Ltd. is shown at a cost of ₹ 2.50 Cr. The fair value of the inventory on the acquisition date is ₹ 3 Cr.

The fair value adjustments have not been reflected in the individual financial statements of B Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Calculate the deferred tax impact on above and calculate the goodwill arising on acquisition of B Ltd.

1. Deferred Tax:

Particulars	Property	PPE	Inventory	Total
New CA (Fair Value)	18	13	3	34
Tax Base	15	11	2.5	28.5
TD	3	2	0.5	5.5
X TR	X 20%	X 20%	X 20%	X 20%
DTL	0.6	0.4	0.1	1.1

2. (Goodwill) / Capital Reserve

Net Assets (23 + 3 + 2 + 0.5 - 10)		27.4
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Purchase consideration	25	
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NCI $\left(\frac{12}{80\%} \times 20\% = 3 \text{ shares} \times 2 \right)$	<u>6</u>	(31)
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Goodwill.		(3.6)
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Q 19

Illustration 6

An entity has a deductible temporary difference of ₹ 50,000. It has no taxable temporary differences against which it can be offset. The entity is also not anticipating any future profits. However, it can implement a tax planning strategy which can generate profits up to ₹ 60,000. The cost of implementing this tax planning strategy is ₹ 12,000. The tax rate is 30%. Compute the deferred tax asset that should be recognised.

Solution

The entity should recognise a deferred tax asset of ₹ 14,400 @ 30% of ₹ 48,000 (₹ 60,000 – ₹ 12,000).

The balance deferred tax asset of ₹ 600 @ 30% on ₹ 2,000 (₹ 50,000 – ₹ 48,000) shall remain unrecognised.

a) DTD :	50,000	
b) Profit from Tax strategy :	48,000	
(60,000-12,000)		<u>DTA not recognised.</u>
c) Lower of above	48,000	2,000
	x 30%	x 30%
DTA	14,400	600

Q 20

6. B Limited is a newly incorporated entity. Its first financial period ends on 31st March, 20X1. As on the said date, the following temporary differences exist:

- Taxable temporary differences relating to accelerated depreciation of ₹ 9,000. These are expected to reverse equally over next 3 years.
- Deductible temporary differences relating to preliminary expenses of ₹ 4,000 expected to reverse equally over next 4 years.

It is expected that B Limited will continue to make losses for next 5 years. Tax rate is 30%. Losses can be carried forward but not backwards.

Discuss the treatment of deferred tax as on 31st March, 20X1.

$$\text{DTL} : 9000 \times 30\% = 2700$$

DTA :

<u>Particulars</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Total</u>
Reversal of TTD	3000	3000	3000	-	
Reversal of DTD	1000	1000	1000	1000	
Lower	1000	1000	1000	-	3000
					x 30%
				DTA	900

DTA of ₹.1000 (4000-3000) of ₹.300 can not be recognised.

Q 21

Illustration 5

A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹100 thousand and taxable profit for year 20X1-20X2 is ₹104 thousand. The difference between these amounts arose as follows:

- On 1st February, 20X2, it acquired a machine for ₹120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes.
- In the year 20X1-20X2, expenses of ₹8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

Prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

1. **Current Tax:** $104 \times 25\% = 26$

current tax (P&L)	26	
To C.T. Liability		26

2. **Deferred Tax:** (on machine)

CA	118				
TB	(114)				
TD	4				
x TR	x 25%				
DTL	1				

		DT Exp (P&L)	1
		To DTL	1

Carrying Amount =

CA on 1 st Feb	120	
(→) Depreciation	(2)	
$\left(\frac{120}{10} \times \frac{2}{12}\right)$		
	118	

Tax Base

CA on 1 st Feb	120	
(→) Depreciation	(6)	
$\left(\frac{120}{10} \times \frac{6}{12}\right)$		
	114	

3. **Taxable Profit:**

PBT (as per Books)	100
(+) Accounting Depreciation (Disallowed)	2
(-) Income Tax Depreciation	(6)
(+) Donation Disallowed	8
Taxable PBT	104

4. Tax Reconciliation:a) Absolute Numbers:

PBT (Books)	100
Tax @ 25%	25
+ Charitable Donation (8 x 25%)	2
Tax Expense	27

b) Tax Rate Reconciliation

Applicable Tax Rate	25%
+ Donation $\left(\frac{2}{100} \times 100\right)$	2%
Avg Effective Tax Rate -	27%