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AS-22

A/cing for taxes on income.

PBT	xxx
− Tax exp.	
C. Tax	
D. Tax	
PAT.	xxx

RoT = 30%

Income = 400

	A/c		Tax
PBT.		300	400
− Tax			
i) C.T. (400 × 30%)	120		
ii) D.T.	(30)	90	
PAT.		210	

Deferment of tax exp. of ₹30 in future years.

#1 Tax expense (SOPIL)

Current tax → taxable income × tax rate → profit as per I.T. Act.

Deferred tax → tax on diff. b/w a/c profit & tax profit

A/C profit — xxx

+ Income allowed — xx

− Income disallowed. — (xx)

− Exps allowed — (xx)

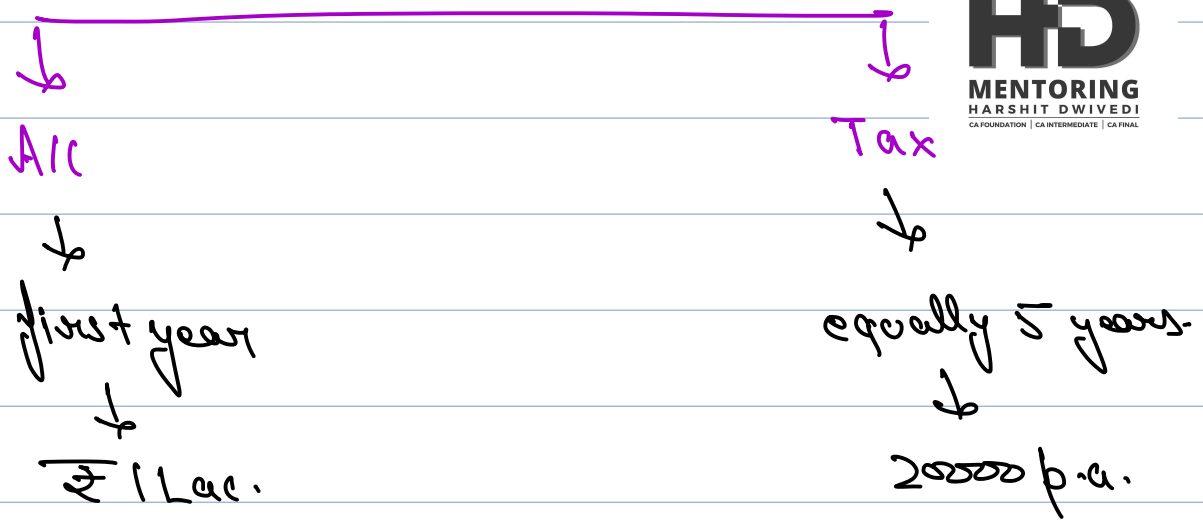
+ Exps disallowed. — xx

Taxable Income — xxx

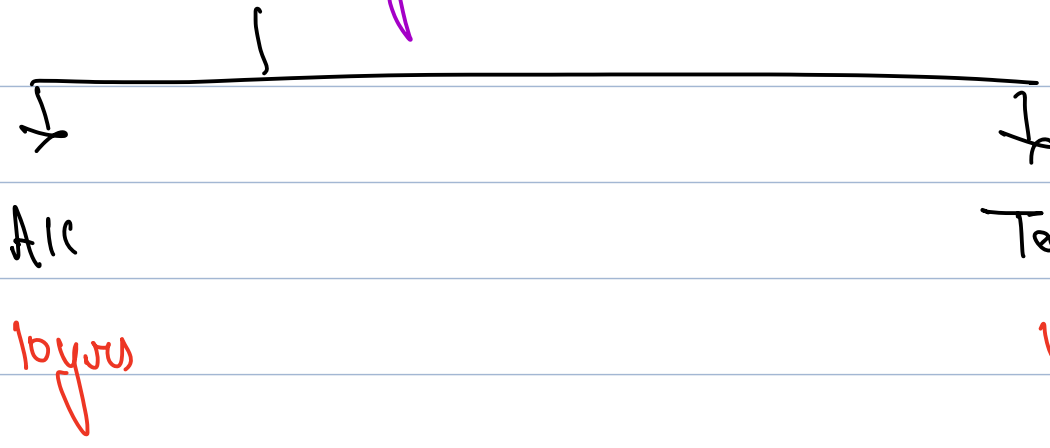
Difference.

- Timing → diff. due to point of recognition in future years.
- permanent → which is not T.D.

eg-1 Preliminary exps. of ₹ 100000



eg-2 Plant & machinery (Amt)



eg-3 Bonus — (₹5000)

Yr 1 Yr 2

A/c	Tax	A/c	Tax
5000	—	—	5000

eg-4. 30000 income accrued but not received in C.Y. . Tax = 30%.

yr 1		yr 2.	
A/c	tax	A/c	tax
30000	0	0	30000

#2 Taxes does not include.

i) indirect tax

ii) DDT.

#3 So PIL

Income	xxx
− Exps	xxx
PBT	
− Tax	
i) C.T.	
ii) D.T.	
PAT.	xxx

logically bcoz of D.T., Tax expense matches with Tax on accing profit. hence for such matching concept D.T. was introduced.

eg-5 Income = 100000 , Tax rate = 30%.

Interest paid = 40000

OIS Bonus = 10000

Sol^n :- Step1 SO PIL.

Income =	100000
− Interest	(40000)
− OIS Bonus	(10000)
PBT	50000
− Tax	
i) C.T. (Step2)	18000
ii) D.T. (Step3)	(3000)
	(15000)
PAT	35000

Step2. C.T.

PBT	50000
+ Bonus	10000
T.I.	60000
× T.R.	× 30%
C.T.	18000

Step3. D.T.

a/c profit	50000
Tax income	60000

× 30% = 15000

× 30% = 18000

Deductible T.D. 10000

X T.R. X30%

D.T.A 3000

means we are paying more tax in c.y. so will get benefit in future year or pay less tax in future year

#4. Expenses

A/c > Tax

A/c profit < Tax. Inc.

D.T.D.

(deductible Timing diff.)

DTA.

A/c < Tax

A/c profit > Tax. Inc.

T.T.D

(Taxable Timi. diff.)

DTL.

eg-6 → PBDST = 30000 for each 4 years

PSM = 12000

Useful life → Acc → 4 yrs.
Tax → 3 yrs.

T. Rate = 30%.

Soln :-

Step 1 SOPL

	yr 1	yr 2	yr 3	yr 4
PBDIT	30000	30000	30000	30000
− Dep	(3000)	(3000)	(3000)	(3000)
PBT	27000	27000	27000	27000
− Tax exp.				
i) C.T.	7800	7800	7800	9000
ii) D.T.	300 (8100)	300 (8100)	300 (8100)	(900) (8100)
PAT	18900	18900	18900	18900

Step 2 C.T.

	yr 1	yr 2	yr 3	yr 4
PBT (Acc)	27000	27000	27000	27000
+ Dep. (Acc) (disallowed)	3000	3000	3000	3000
− Dep. (Tax)	(4000)	(4000)	(4000)	—
T.I.	26000	26000	26000	30000
× T. Rate	30%	30%	30%	× 30%

C.T.	7800	7800	7800	9000

Step 3 Def. Tax

	yr1	yr2	yr3	yr4
Dep. (acc)	3000	3000	3000	3000
Dep. (Tax)	4000	4000	4000	—
T.T.D.	1000	1000	1000	(3000)
X T.R.	X30%	X30%	X30%	X30%
DTL	300	300	300	(900)
	↓ PIL Dr To DTL	↓ PIL Dr To DTL	↓ PIL Dr To DTL	↓ Rev. of DTL / DTA Dr To PIL

QUESTION: 1

Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	*= 2,00,000*
Depreciation as per income tax records	*= 5,00,000*
Unamortised preliminary expenses as per tax record	*= 30,000*

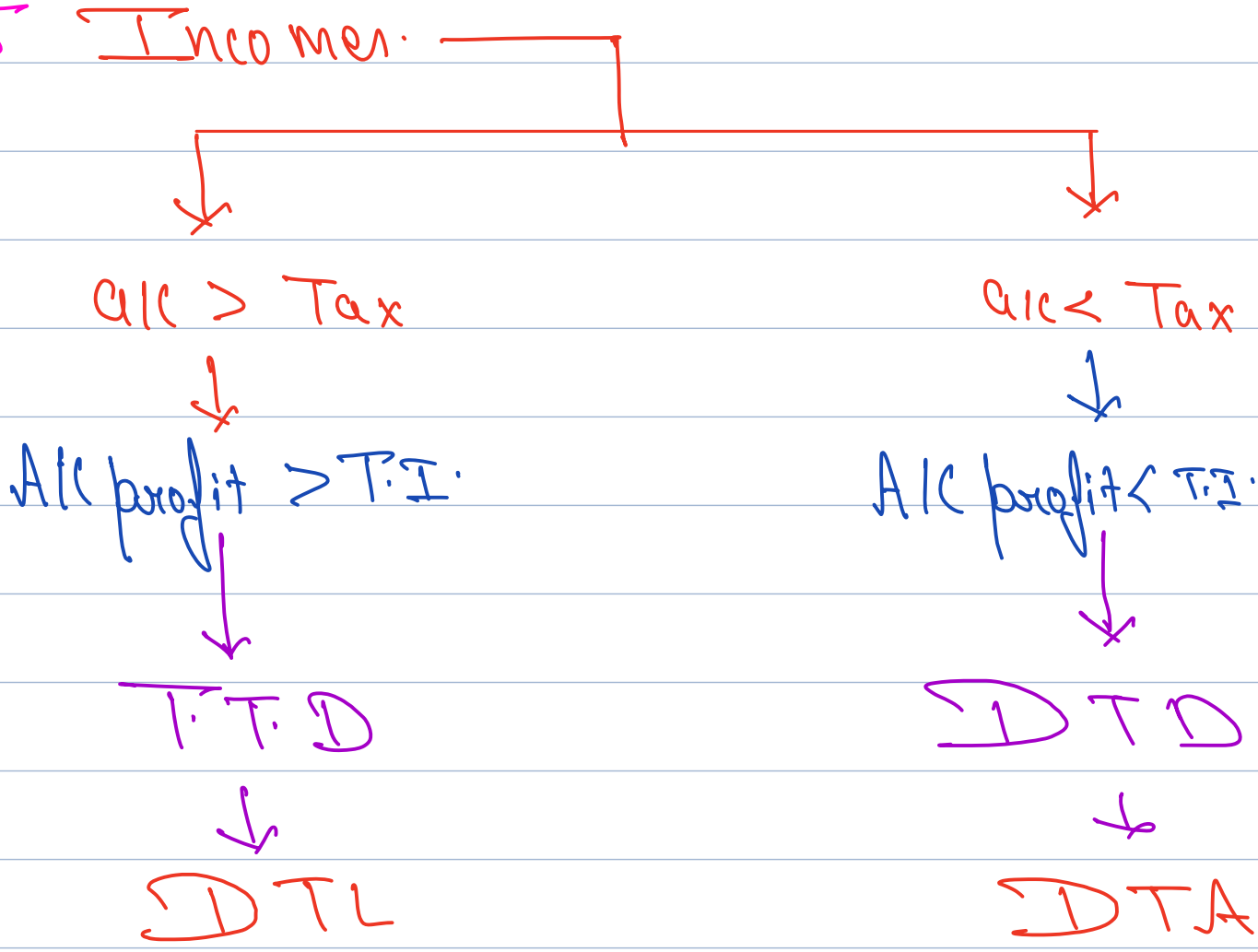
There is adequate evidence of future profit sufficiency. How much net deferred tax asset/liability should be recognised as transition adjustment? Tax rate 50%.

Soln:-

	Acc	tax	T.D	T.R.	D.T.
i) Depreciation	200000	500000	300000 (T.T.D.)	50%	150000 (DTL)
ii) preliminary exps.	30000	0	30000 (D.T.D.)	50%	15000 (DTA)

DTL 13500

#5 Income.



Eg-7 income received in Advance = ₹30000
T. R. = 30%.
Taxable as per tax laws on cash basis

Soln:-	AIC	Tax	T.D.	T.R.	D.T.
income	0	30000	30000	30%	9000
			(DTD)		DTA.

Eg-8 income earned but not received = 25000

Taxable as per tax laws on cash basis
T. R. = 30%.

	AIC	Tax	T.D.	Tax R.	D.T.
income.	25000	0	25000 (T.T.D)	30%	7500 DTL

#6 Income of same year

eg-9 (₹ in Lacs.)

	AIC	Tax	T.D.	T.R.	D.T.
income 1	11	4	4 (TTD)	30%	1.2 DTL
income 2	16	18	2 (DTD)	30%	0.60 DTA.
income 3	21	23	2 (DTD)	30%	0.60 DTA
					0

#7 Income of different years. (Tax rate = 35%)

(I 11-4 of SM) (₹ in lac)

eg-10

	14-15	15-16	16-17.
Accing Income.	11	16	21

	7	18	23
Tax. Income			
T.D.	4 L (T.T.D)	2 L (DTD)	2 L. (DTD)
X T. Rate.	35%	35%	35%
D.T.	1.4 (DTL)	0.7 DTA	0.7 DTA
	↓	↓	↓
	P/L Dr 1.4 To DTL 1.4.	DTL Dr 0.7 To P/L 0.7	DTL Dr 0.7 To P/L 0.7

☞ instead of creating DTA in 15-16 & 16-17 we will reverse DTL.

#8 CIF off losses (III-3 of SM) T.R = 40%.

Eg-11

	yr1 (2 lac)	yr2 1 lac	yr3. 1.20 L
PBT			
- Tax			
i) C.T. (Step2)	0	0	8000
ii) D.T. (Step3)	80000	40000	40000
PAT.	(120000)	60000	72000

Step 2 C.T.

	yr1	yr2	yr3
PBT	(2)Lac	1L	1.2L
Set off	+2Lac	(1L)	(1L)
Taxinc.	0	0	20000
xT.R.	40%	40%	40%
C.T.	0	0	8000

Step 3 D.T.

	yr1	yr2	yr3
Alling. Tax	(2)L	1L	1.2L
	0	0	20000
T.D	(2)	1	1
	DTD.	T.T.D.	T.T.D
xT.R.	40%	40%	40%
D.T.	8000	4000	4000
	DTA.	DTL ↓ PIL Dr TODTA	DTL ↓ PIL Dr TODTA

↓ DTA Dr To PIL

#9 MAT Credit.

I.T. = Tax on income

facility by I.T. dept. to taxpayer.

to pay tax in excess in the P.Y.
& later on get benefit of it.

Tax expense = (MAT - C.T.)
= xx

QUESTION: 2 Similar to DEC 21, NOV19 (5 M) **Illustration 2**

From the following details of A Ltd. for the year ended 31-03-20X1, calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

Particulars	₹
Accounting Profit	6,00,000
Book Profit as per MAT	3,50,000
Profit as per Income Tax Act	60,000
Tax rate	20%
MAT rate	7.50%

Soln:-

Step1 SOPL.

PBT 600000

- Tax exp.

i) C.T. (step2) 12000

ii) D.T. (Step3) 108000

iii) Excess of D.T. (Step2) 14250

(134250)

PAT 465750

Step 2 C.T.

T.I.	600000
X T.R.	20%
C.T.	120000

Step 3. D.T.

A/C profit	600000
T.I.	600000
T.T.D.	540000
X T.R.	20%
DTL	108000

Step 4. MAT

MAT Credit = 350000 x 7.50%.

= 26250

Excess of MAT over C.T. = 26250 - 12000

= 14250

∴ Total Tax exp = 14250 + 120000 + 108000

= 134250

#10 Tax Holiday.

↓

means enterprise will not be held liable for any tax obligations.

∴ No Tax expenses will be created.

However Timing difference might get reverse and DTA / DTL will be created only after Reversal.

Refer HD textbook Q. 5.

#11 Reversal of loss.

loss.

↓

P.D.

↓

then No set off of losses.

& Create

C.T. liability.

↓

{ means there will be I. loss. as no reversal in future }.

T.D.

↓

Create

DTA / DTL

↓

(means reversal in future)