

श्री अरुण शर्मा

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Ind As - 12

Income taxes

#1 overview

Current tax

Deferred tax

Special issue

- Definition
- Recognition
- measurement
- Accounting treatment
- Off setting

- C.A.
- Tax base
- T. Diff. & Cal.
- Classification of T. diff.
- Anet deductible T. dif
- Recognition of D. Tax
- Accounting of D. Tax

- i) Biz. Combination
- ii) Anet Acquisition
- iii) SBP
- iv) T. diff. associates with invt in Subs/As/JV.

off setting.  
 Det. Tax rates for Def. tax

eg:- Yr 11 → Bo A.

Tax books  
 ↳ ₹ 100 exps disallowed.

Revenue	1000 ₹
Exp	(700) ₹
PBT	300 ₹
Tax @ 30%	(90)
PAT	210 ₹

Revenue	1000 ₹
Exps	(600) ₹
PBT	400 ₹
Tax 30%	(120) ₹
PAT	280 ₹

↓  
 A/cing profit  
 ↓  
 Accrued basis

↓  
 as per  
 Income tax  
Act

Current tax  
 which is to be  
paid.

J.F.  
 Tax expense Dr 90

DTA ~~Prepaid exp. Dr 30~~  
 To CIB 120 ₹

year 2

	AIC		Tax
Revenue	1000	Revenue	1000
Exp	700	Exp.	800
PBT	300	(700 + 100)	
Tax @ 30%	90	↓ allowed P.Y.	200
		↓ e.g.	
		Tax @ 30%	60

to be booked as per acc

current tax

Tip

Tax exp. Dr 90

To CIB

60

To ~~prep exp.~~  
(Revenue)

30

DTA  
(Revenue)

# Income taxes

Current tax

Deferred tax

Tax to be paid as per Income tax Act (i.e. on taxable profit)

Diff. between Tax accrued as per Act's

is current tax

Tax paid / payable as per I. Tax Act

Definition

1)	Current tax exp	Dr	120	
		To	Cr	120

2)	DTA	Dr	30	
		To	PL	30

Sch III → SOPL (Extract) *you*

Tax Expense.

1)	Current tax	120	
2)	Def. tax	(30)	90

# Recognition :-

## Tax

if unpaid

Liability

Prov. for tax

(Current tax liability)

if paid in  
excess

(Adv. tax, TDS)

Asset.

Ad. Tax (C. Tax asset)

eg :- P.Y. 01-02

↳ Tax exp - Dr 120

To P F Tax 120

next year

(A.Y.)

P F T

Dr

120

To CIB

120

Measurement :- shall be measured using tax rates that have been enacted or substantially enacted by end of reporting

period.

year 01-02 → 1-4-01 to 31-3-02  
↓

tax rate ⇒ 30%

but F.M. 14<sup>th</sup> Feb 2002 govt budget

35% X

Applicable from 02-03-

Alcing Treatment of C. Tax in SOPL is

SO PL

PIL.

OCT

if items/expense is recognised in

PIL  
↓

then current tax  
on such item will  
be recognised in  
PIL

OCI  
↓

then current tax  
on such item will  
be recognised in  
OCI

Off setting C-Tax Asset (Ad-Tax) & C-Tax  
Liability (P.F. Tax) :-

is allowed

entity has  
legally enforceable  
right to set off

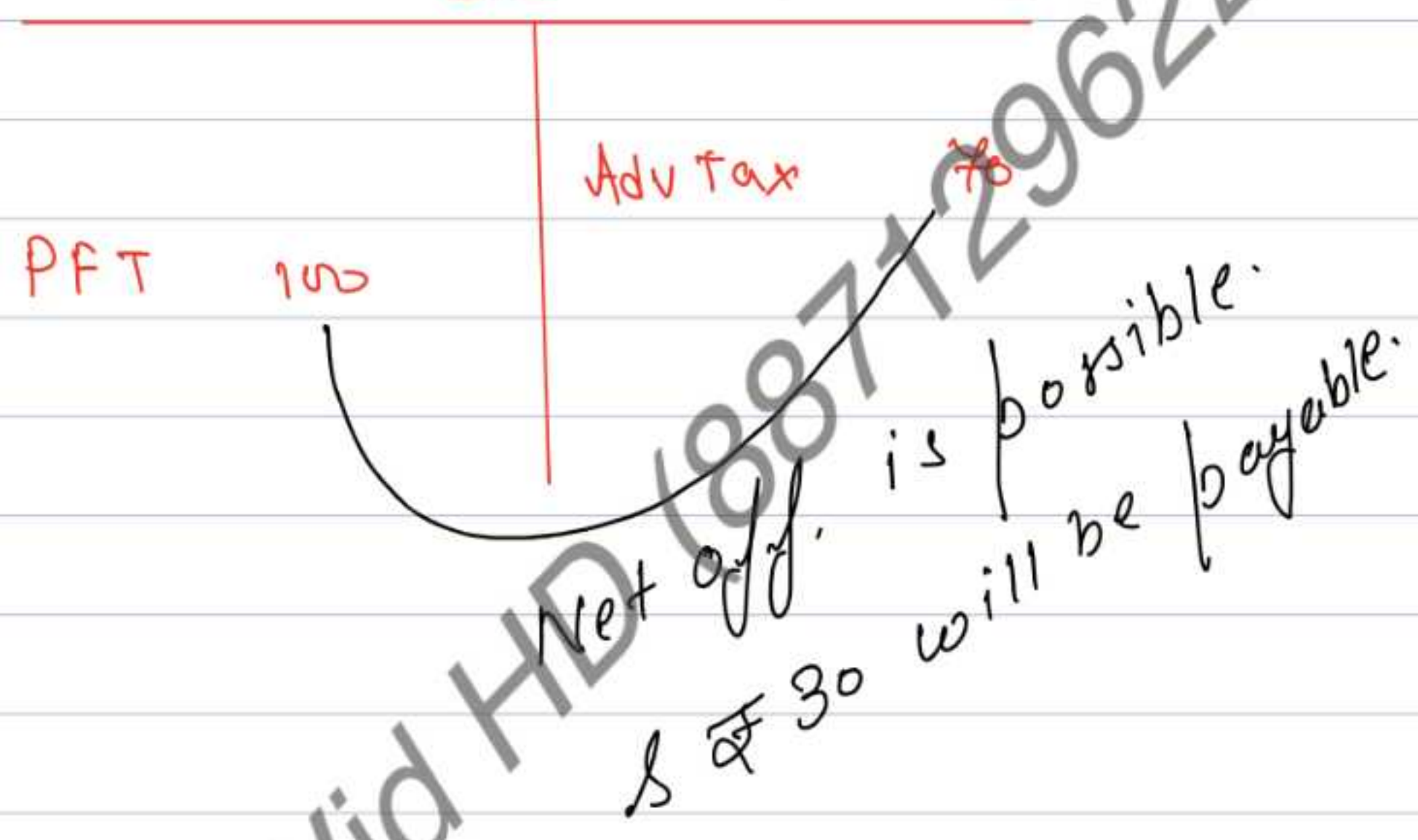
only if  
&

intends to  
settle on  
net basis

S

legally enforceable right to set off is only when they relate to taxes levied by same taxation authority

BIS → Buddy Ltd.



Deferred tax :-

↳ In As-22 Def. tax calculated on P12 approach, while Ind As 22 here Def. tax calculated on BIS approach.

eg:-

1-4-23



PPE purchase. → 10 lakh.

useful life.

↓  
5 year.

Dep ⇒ 2 lacs.  
(Tax)

useful life

↓  
4 years

Dep → ₹ 2.5 lacs

Scrap. val.  
0

year end CA. of PPE

↓  
AIC

10 - 2.5

⇒ 7.5 L

↓  
tax

10 - 2

⇒ 8 L

↓  
Tax base.

Day 1 J.E.:-

PPE Dr 10 lakh  
To CIB 10 lakh

PPE Dr 10 Lac  
To CIB 10L

yearend. Dep 2.5  
To PPE 2.5.

Dep 2  
To PPE 2

BIS approach.

DTA  
↓  
Def. Tax Asset

DTL  
↓  
Def. tax Liability

Tax base :- amount as per laws of I. Tax  
tax rate @ 30%.

PPE Cases:-

T. Base. (tax)	C.A. (alc)	<u>DTD:</u> Diff.	(0.5 x 30%) D.T.
8	7.5	0.5	0.15

DTA

Note :- Always go to problematic area  
Jaha se diff. create huye hai.  
waha par jakar hi solve  
honge diff.

(hamesha CA se T.B. par jaha.)

**DTA DM 0.15**  
**TP 0.15**

Examples of DTA & DT2.

ii) Land → Life infinite, Nondepreciable  
↳ ₹ 1 Cr. Day 1 ⇒ ₹ 1 Cr.  
Yr. end ⇒ ₹ 1 Cr.

T.B. cur. (tax)      C.A. (alc)      Diff.      D.T.

①	1 Cr	1 Cr	—	—
Yr. end.	1 Cr	1 Cr	—	—

3) Land (₹ 1 Cr) <sup>→ Asset</sup>  
 on year end ₹ 1.5 Cr. → Revaluation.

Income tax ⇒ 1 Cr.  
 (yr. end.)

	T. Base. (tax)	C.A. (calc)	Diff.	D.T.
Day 1	1 Cr	1 Cr	(TTD)	-
yr end.	1 Cr	1.5 Cr	50 lac Rev. gain. (0.5)	15 lac ↓ <u>DTL</u>

D.T exps. (0.5) Dr  
 To DTL

A) outstanding Salary 10000 ₹ <sup>→ Liability.</sup>

	T. Base. (tax)	C.A. (calc)	Diff.	D.T.
--	----------------	-------------	-------	------

No entry

yr end.

10000  
 Liability.

1000  
DTD

3000  
 ↓  
DTA

DTA DR  
To P/L

AIC → Accrual basis

Tax → Cash basis

5) prepaid exps. = ₹100  
↳ Asset.

T. Base. (tax)	C.A. (a/c)	Diff.	D.T.
	Prep. Dr. 100 To CIB 100		
	100	<u>TTD</u> 100	30 <u>DTL.</u>

6) Advance income 100  
↳ Liability.

T. Base. (tax)	C.A. (a/c)	Diff.	D.T.
0	100	100	30
		<u>DTD</u>	<u>DTA</u>

7) prov. for gratuity 1000  
↳ Liability.

T. Base. (tax)

C.A. (calc)

Diff.

D.T.

0

1000

1000

300

DTD

DTA.

8) Prov. for Baddebts.

→ Liability.

1000

T. Base. (tax)

C.A. (calc)

Diff.

D.T.

0

1000

1000

300

DTD

DTA.

9) Int. income receivable. ₹100

→ Asset.

T. Base. (tax)

C.A. (calc)

Diff.

D.T.

0

100

100

30

TTD

DTL.

→ prepaid exps → Asset.

10) Preliminary exps.

₹100

T. Base. (tax)

C.A. (calc)

Diff.

D.T.

Day 1

100

100

—

year end.

80

0

80

24

DTD.

DTA.

(w/ 10% over 5 yrs.)

I. Tax Act.

before starting operation.

Day 1 → 100 → 20 ₹.  
w/o diff.

11) Fines & penalties  
₹ 100 paid.

AIC → Acc. Bavin.  
Tax → Disallowed.  
Permanently.

T. Base. (tax)

C.A. (tax)

Diff.

D.T.

Diff. is other than temporary diff. (OTTO)

∴ No DTA/DTL.

C.A = T.B.

12) Agriculture income.

all → ✓  
Tax → Exempt

→ Same treatment  
as in Preg

Diff. is other than temporary diff. (OTTO)

∴ No DTA/DTL

$$CA = T.B.$$

## Classification of T. Diff.

DTL → in future we have to pay more tax

Diff. → Taxable Temp. Diff. (TTO)

DTA → in future we have to pay less tax

Diff. → Deductible Temp. diff. (DTD)

eg:- on 1-4-11 HD Ltd purchased car of ₹50 Lakh (PPF). Tax rate = 30%.  
useful life (acc) = 5 years

Tax = 4 years

Compute DT for all 5 years & per J.E.

Sol<sup>n</sup>:-

Particulars.

T. Base  
(Tax)

C.A.  
(alc)

Diff

D.T.

Day 1  
yr end.

500

500

375

400

25

7.5

$$\left. \begin{array}{l} 500 - 125 \\ \left( \frac{500 \times 1}{4} \right) \end{array} \right\} \cdot \left. \begin{array}{l} 500 - 100 \\ \frac{50}{5} \end{array} \right\}$$

TTD

DTL

DT Exp Dt 7.5  
To DTL  
7.5

yr 2 end.

250

300

50  
TTD

15

DTL

D.T. Exp Dt (PIL) Dt ~~7.5~~

To DTL ~~7.5~~

yr 3 end.

125

200

75  
TTD

22.5  
DTL

DT Exp Dt 7.5

To DTL 7.5





i) TTD (DTL)

₹ 9000 x 30%	2700 (DTL create)	(900)	(900)	(900)	—
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ii) DTD (DTA)

₹ 4000 x 30%	1200 (DTA create)	(300)	(300)	(300)	(300)
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for this we don't have DTL reversal as of now

Recognize.

DTA = ₹ 900

we can utilize only till amt of DTL available for reversal

(Blf) 300

unrecognised DTA

Disclose.

eg:- in above Q. if DTD was ₹ 15000 instead of ₹ 4000. remaining information was same.

Particulars.	31-3-11	31-3-12	31-3-13	31-3-14.	31-3-15
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i) TTD (DTL)

₹ 9000 x 30%	2700 (DTL create)	(900)	(900)	(900)	—
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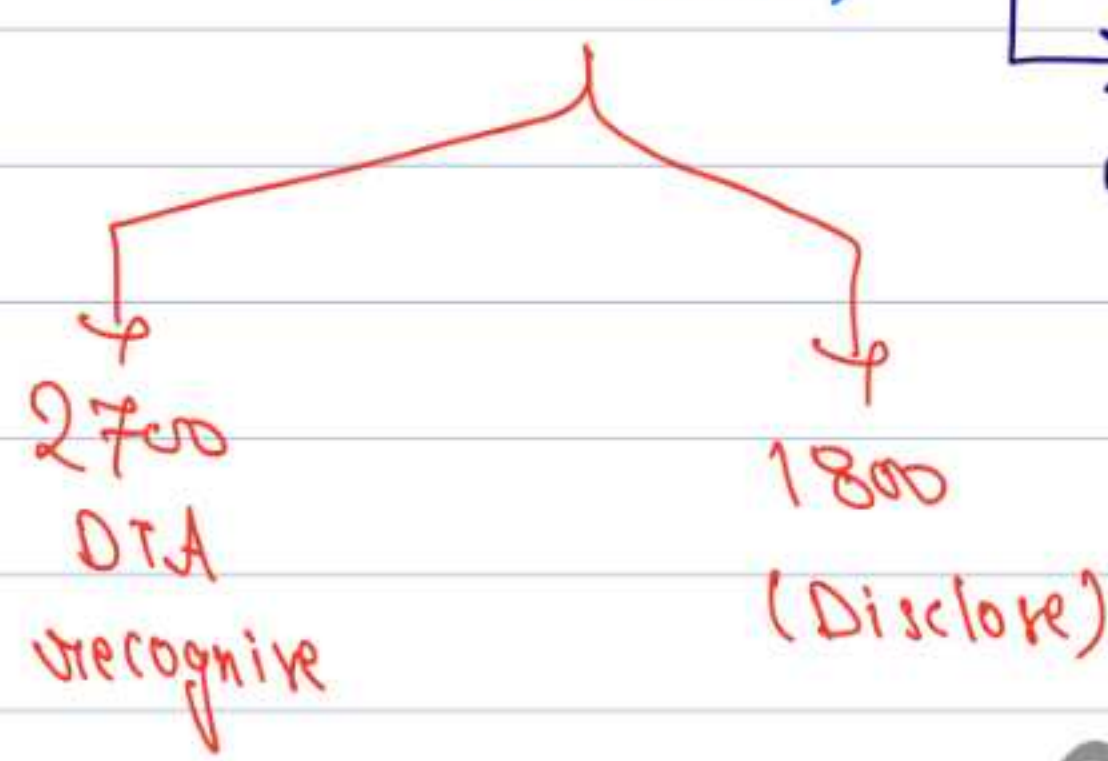
ii) DTD (DTA)

₹ 15000 x 30%

⇒ 4500

4500  
(DTA create)

₹ (1125) (1125) (1125) (1125)



↳ up to ₹ 900 as DTL Reversal is available till 900

eg → Tax losses

year 1 tax loss ⇒ (5000) → we can c/f. to future yrs.

year 2 profit tax ⇒ 8000



less tax in future is payable

due to loss in C.Y. i.e. year 1



hence in year 1 DTA should be

Created.  $DTA \text{ Amt} = 50000 \times 30\%$   
 $= ₹ 15000$

As in further years it will be reverse.

eg:- MAT Credit.

↳ Minimum Alternative Tax

year 1 Tax profit = 0,  $\therefore$  Tax payable = 0

Book profit @ 18.5%  $\Rightarrow$  ₹ 250

↓  
₹ 50000

↓  
Tax payable.

(Tax as per MAT provi.)

year 2 Tax profit  $\Rightarrow$  80000 @ 30% = 24000  
MAT profit  $\Rightarrow$  10000 @ 18.5% = 1850

year 2 Tax payable  $\Rightarrow$  24000

— 9250 (MAT Credit)

14750

In yr. 1  $\rightarrow$  Co. will create DTA on MAT Credit i.e. ₹ 9250 (DTA).  
{ Jitna MAT Cr. hai utna DTA banega? }

Summary :-

DTD  $\rightarrow$  DTA (DTD  $\times$  tax rate)

tax loss  $\rightarrow$  DTA (tax loss  $\times$  tax rate)

Mat credit  $\rightarrow$  DTA (MAT credit setoff directly)

7. X Ltd. prepares consolidated financial statements to 31<sup>st</sup> March each year. During the year ended 31<sup>st</sup> March 20X2, 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 31<sup>st</sup> March, 20X2, 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 31<sup>st</sup> March, 20X2. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31<sup>st</sup> March 20X3, X Ltd. expects to make taxable profits which are well in excess of ₹ 20,00,000. On 31<sup>st</sup> March, 20X2, X Ltd. had taxable temporary differences from other sources which were greater than ₹ 20,00,000.

RTP Nov  
18.

Q.7 TYK

Pg. 9.84.

of ICAI  
SM.

(iii) During the year ended 31<sup>st</sup> March, 20X1, 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 1<sup>st</sup> January, 20X2. 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 31<sup>st</sup> March, 20X2.

(iv) On 1<sup>st</sup> April, 20X1, 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 1<sup>st</sup> April, 20X1. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31<sup>st</sup> March, 20X4 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 31<sup>st</sup> March, 20X4.

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 31<sup>st</sup> March, 20X2 as per Ind AS. Assume the rate of corporate income tax is 20%.

Sol<sup>n</sup> :- i) tax loss  $\Rightarrow$  ₹ 30,00,000 (Normally DTA on tax loss @ 20%.)

but since co. does not expect to earn profit in future  $\therefore$  No DTA will be created.

ii) Particulars.	T.B.	C.A.	Diff.	D.T. @ 20%
Prov. for cl. Liability. Cost. ₹ 2,00,000	0 (no entry)	20L.	20L. (DTD)	4L. $\downarrow$ <u>DTA.</u>
Exp 20L To prov 20L.				

iii) Particulars.	T.B.	C.A.	Diff.	D.T.
intangible Asset. 31-3-11	0 (PIL) 2x 16 To CB 16	1520000 1 Jan 16 L. - 3 m. (80K) (16 x 3 / 12 x 1/5) Bal	1520000 (TTD)	304000 ↓ DTL.

iv) Particulars.	T.B.	C.A.	Diff.	D.T.
loan taken 1-4-2011	1,00,00,000 <u>face value</u>	10780000 (WN-1)	780000 (DTD)	156000 DTA.

WN-1  
Step 1 Cash flows.

Yr	Cf.
0	1 cr inflow. - 2 lakh (T.C)
1-3	0
3 <sup>rd</sup> end.	13043800 (outflow)

Step 2 PV of F.2.  
1 cr - 2L ⇒ 98L.

Step 3 EIR = 10%.

Step 4. L.A.T.

Yr end	Op.	Int	Rep.	cl.
31-3-12	9800000	980000	-	10780000

C.A.

Do it yourself. Similar to Q.F.

8 PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31<sup>st</sup> March each year. During the year ended 31<sup>st</sup> March, 20X2, 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 31<sup>st</sup> March, 20X2, 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 1<sup>st</sup> January, 20X2. 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 31<sup>st</sup> March, 20X2.
- On 1<sup>st</sup> April, 20X1, 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 1<sup>st</sup> April 20X1. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31<sup>st</sup> March 20X4 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 31<sup>st</sup> March, 20X4.

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 31<sup>st</sup> March, 20X2 as per Ind AS. The rate of corporate income tax is 30%.

eg. :- on 1-4-23 H.O. Ltd purchased porche. ₹ 100 Lakh. Tax rate 30%, A/c life = 5 years.

Tax = 4 years.

on 31-3-24 Porche revalued at ₹ 120 Lakh

Sol<sup>n</sup> :- Dayi → No diff. -

Particulars.	T.B.(A)	C.A.	Diff.	D.T.
PPE (100 Lakh)	75 L.		45 Lac.	13.5
	$\left(\frac{100}{4} = 25\right)$ Dep. 100 → 75		$\left(\begin{matrix} 120 \\ -75 \end{matrix}\right)$	<u>DT2.</u>

Before After

Reval. (b)

80L.

$$\left( \frac{100}{5} = 20L. \right)$$

Reval. (c)

120L.

actual  
C.A.

Diff.  $\Rightarrow$  45 Lakhs.

Dep. (a & b)

(B & C) Revaluation

T.B.	C.A.	Diff.	D.T.	C.A.	C.A.	Diff.	D.T.
a)	(b)		20L.	after	bef.		
75	80	5	<u>1.5L.</u>	Rev.	Rev.		
			<u>DTL.</u>	120	80	40	12
							<u>DTL.</u>

hence  $13.5 = 1.5L. + 12L.$   
(Dep) (Rev.)

Yr 2.

Particulars.	T.B. (a)	C.A.	Diff.	D.T.
Yr. end.	50		40	12
				<u>DTL.</u>

no. (b)  
reval<sup>n</sup>  
60

(c)  
after  
revalu.  
20

$$120 \times \frac{1}{4} \Rightarrow \underline{30}$$

So we again allocate it between Dep & Reval<sup>n</sup> amount.

Diff  $\Rightarrow$  40

(a & b)				(b & c)			
Dep.				Reval.			
T.B.	C.A.	Diff.	DTL.	C.A. (after) Rev.	C.A. if no Rev.	Diff.	DT.
50	60	10	3	90	60	30	9
			-1.5				1
			<u>1.5 L.</u>				<u>DTL.</u>

year end. total  
year 2 create.

$$\Rightarrow 13.5$$

$$1.5$$

Yr 2 Revenue  
Yr 2 end.

(31)  
12.

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.
2. On 1<sup>st</sup> April 20X1, ABC Ltd acquired 100% shares of XYZ Ltd for ₹ 4,373 crore. By 31<sup>st</sup> 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. Show deferred tax treatment.
3. ABC Ltd. acquired 30% of the shares in PQR Ltd. on 1<sup>st</sup> January, 20X1 for ₹ 1,000 crore. By 31<sup>st</sup> 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. Show deferred tax treatment.

H.W.  
T.Y.K.  
of  
ICAI  
SM.

## Determine tax rates in Def. Tax!

eg-1 C.y. (2001-02) ⇒ Tax rate = 30%.

↳ 14 Feb. 2002 → Announced that from  
Next year (2002-03)  
tax rate ⇒ 35%.

21-3-2002 → DTL?  
Taxable T.D. ⇒ T.T.D.  
⇒ ₹ 50000 @ ~~30%~~ 35%.

in future. More tax.

use 35% when this  
rate is Substantially  
enacted in C.y. (01-02)

2001-02. CP12.  
C.T. @ 30%.

D.T. @ 35%.

eg 2 :- PPE (Non Dep.)  
↳ land.

Tax rate for c.y. = 30%  
Cap. gain rate = 20%  
Tax rate ↑

T.B.  
100  
↓  
Cost

C.A.  
120  
↓  
Rev.

Diff.  
20  
↓  
(T.D)

Def. Tax. ↑  
@ 20%  
4.  
↓  
DTL.

Diff. Reversed.  
only possible  
through sale.

eg 3 :- PPE → (machine) → Dep. (same tax rates in eg. 2)

T.B.  
80

C.A.  
100

Diff.  
20

D.T.  
?

Depends.

intention is  
to use PPE.

Sale.

30%

20%

# eg 4.1: Distribution of Dividends.

Co. (H.D.Ltd)

→ profit.

Retain

(undistributed)

Distribute.

(dividends)

Tax rate → 40%

T. rate → 30%

Note → C. Tax / D. Tax

Rate.

40% / ~~30%~~

Undistributed profit.

i.e. if you paid 40% tax earlier & now dis. div. then you will get 10% refund of tax

in future if co. distributes dividends &

10% becomes refundable. then Co. can book a current tax Asset (tax refund) for that 10%.

### Illustration 6

A Ltd.'s 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:

Dep. → acc. → 2m. dep.

- On 1<sup>st</sup> 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 31<sup>st</sup> 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.

Soln (₹ in '000)

Particulars	T. B.	C. A.	diff.	D. Ta
(i) PPE	114	118	4	1
	$(120 \times \frac{1}{10} \times \frac{6m}{12})$	$(120 \times \frac{1}{10} \times \frac{2}{12})$	(TTD)	(DTL)

(PIL) DT Exps. Dr 1

To DTL. 1

ii) Donation  $\rightarrow$  other than T. diff.  $\therefore CA = TB$

Tax reconciliation (in numbers) (₹ in 100)

Profit before tax	100
Tax rate @ 25%	<u>25%</u>
Tax Amount.	25
Exps for which tax ded <sup>n</sup> not allowed (8 x 25%)	<u>2</u>
Tax exps.	<u>27</u>

Tax reconciliation (tax rate)

Applicable tax rate	25%
Tax on donation disallowed $(\frac{2}{100} \times 100)$	2%
Avg. eff. rate	<u>27%</u>

QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS and wants guidance on the tax treatment for the following:

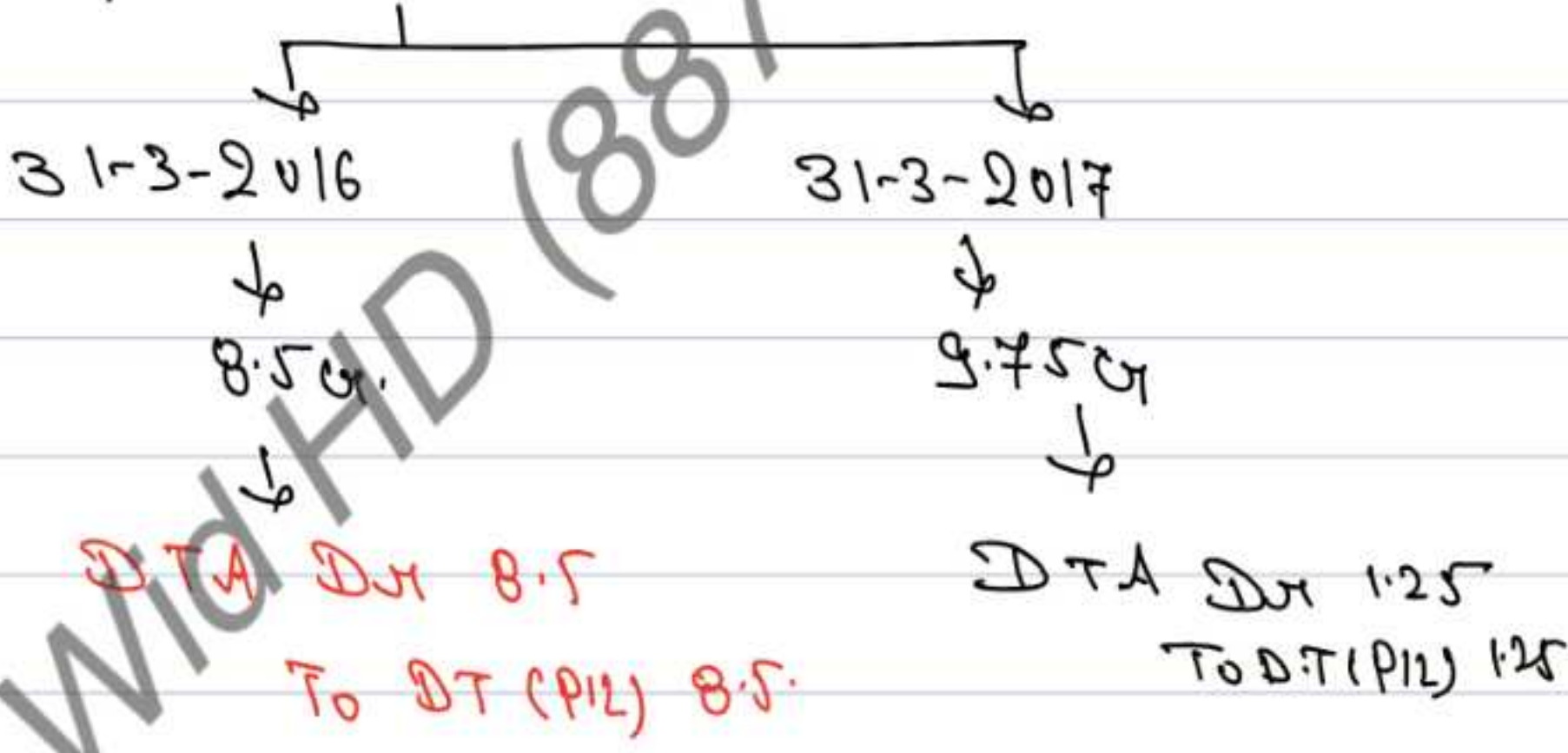
(i) QA Ltd. does not have taxable income as per the applicable tax laws, but pays 'Minimum Alternate Tax' (MAT) based on its books profits. The tax paid under MAT can be carried forward for the next 10 years and as per the Company's projections submitted to its bankers, it is in a position to get credit for the same by the end of eighth year. The Company is recognising the MAT credit as a current asset under IGAAP. The amount of MAT credit as on 31st March, 2016 is Rs. 8.5 crores and as on 31st March, 2017 is Rs. 9.75 crores;

(ii) The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March, 2016, the carrying value of the property (after revaluation) was Rs. 40 crores whereas its tax base was Rs. 22 crores. During the year ended 31st March, 2017, the Company charged depreciation in its Statement of Profit and Loss of Rs. 2 crores and claimed a tax deduction for tax depreciation of Rs. 1.25 crores. On 31st March, 2017, the property was revalued to Rs. 45 crores. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation.

The Company has no other temporary differences other than those indicated above. The Company wants you to compute the deferred tax liability as on 31st March, 2017 and the charge/credit to the Statement of Profit and Loss and/or Other Comprehensive Income for the same. Consider the tax rate at 20%.

(similar to I11 of sm)

Sol<sup>n</sup> :- i) mat credit



31-3-17 DTA (BIS) → 9.75 cr.  
 (2016-17) DTA (PIL) → 1.25 cr

ii)

Particulars.	T.B.	CA.	Diff	Def tax
31-3-16	22		18	DTL.

3.6  
(18x20%)

bef. Rev.  
22.

A.J. Rev.  
40

DT exps. (OCI) Dr 3.6  
To DTL 3.6.

Allocation into PIL or OCI

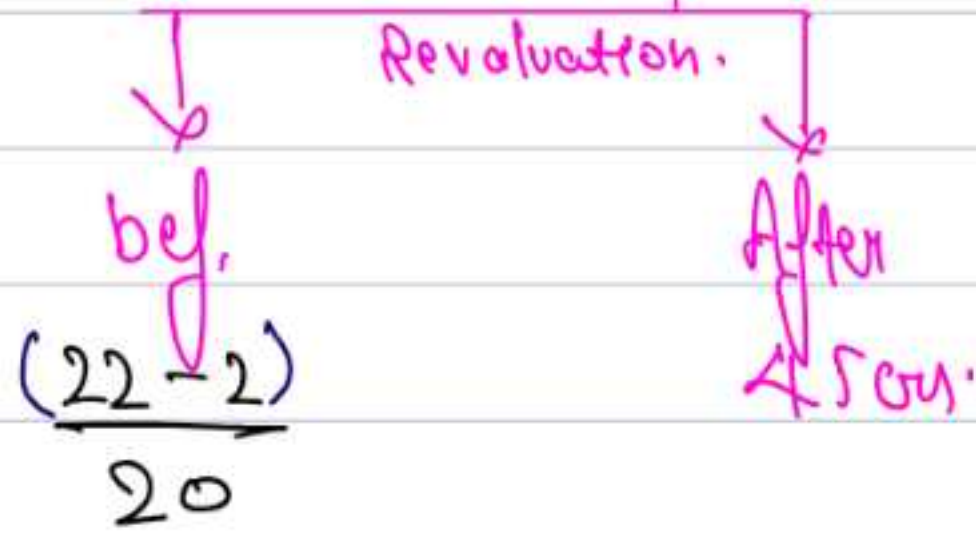
Diff = 18  
1



C.A.	T.B.	Diff	DT
22	22	-	-

C.A (bef.)	C.A (after)	Diff	DT
22	40	18	3.6 DTL

Particulars	T.B.	C.A.	Diff	Def tax
31-3-17	20.75 (22-1.25)		24.25	4.85 (DTL)



Allocation of Def. tax exps in P/L or OCI.

Difference  $\Rightarrow$  24.25

Dep.

Revaluation

T.B.	C.A. (bef. Rev.)	Diff	Def. tax	C.A. after Rev.	C.A. (bef. Rev.)	Diff	Def. tax
20.75	20	0.75	0.15 DTA	45	20	25	5 DTL

DTA

Dr 0.15

To

DT (PIL)

0.15

(OCI) DT Expi.

Dr

1.4

To DTL

1.4

(5-3.6)

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?

RTP May 21

4 marks.

Sol<sup>n</sup>

Particulars.

T. B.

CA.

Diff

Def. tax

Assota.

800000

650000

150000

45000

(Recov. amt)

(DTA)

DTA.

CA 10L.

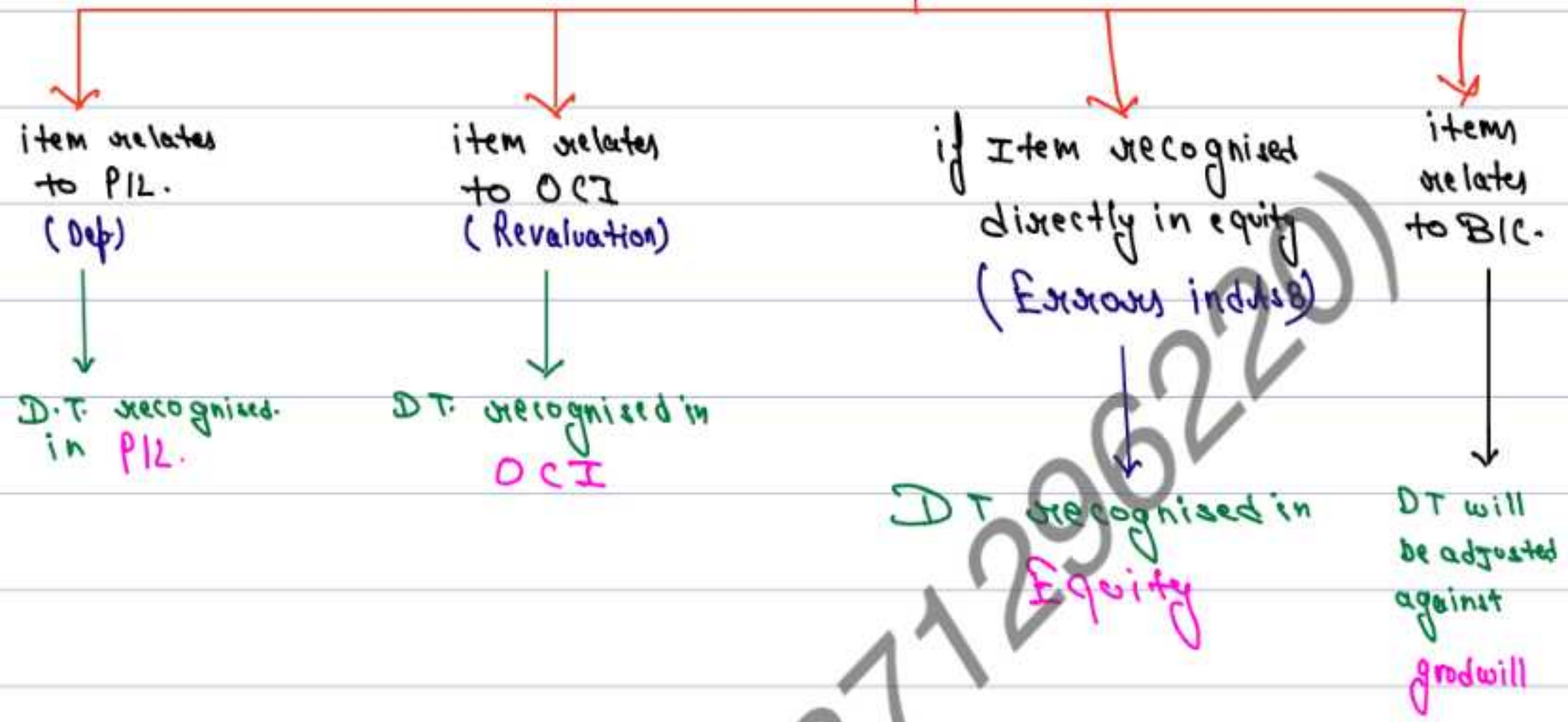
RA 6.5L.

I.L. 3.5L.

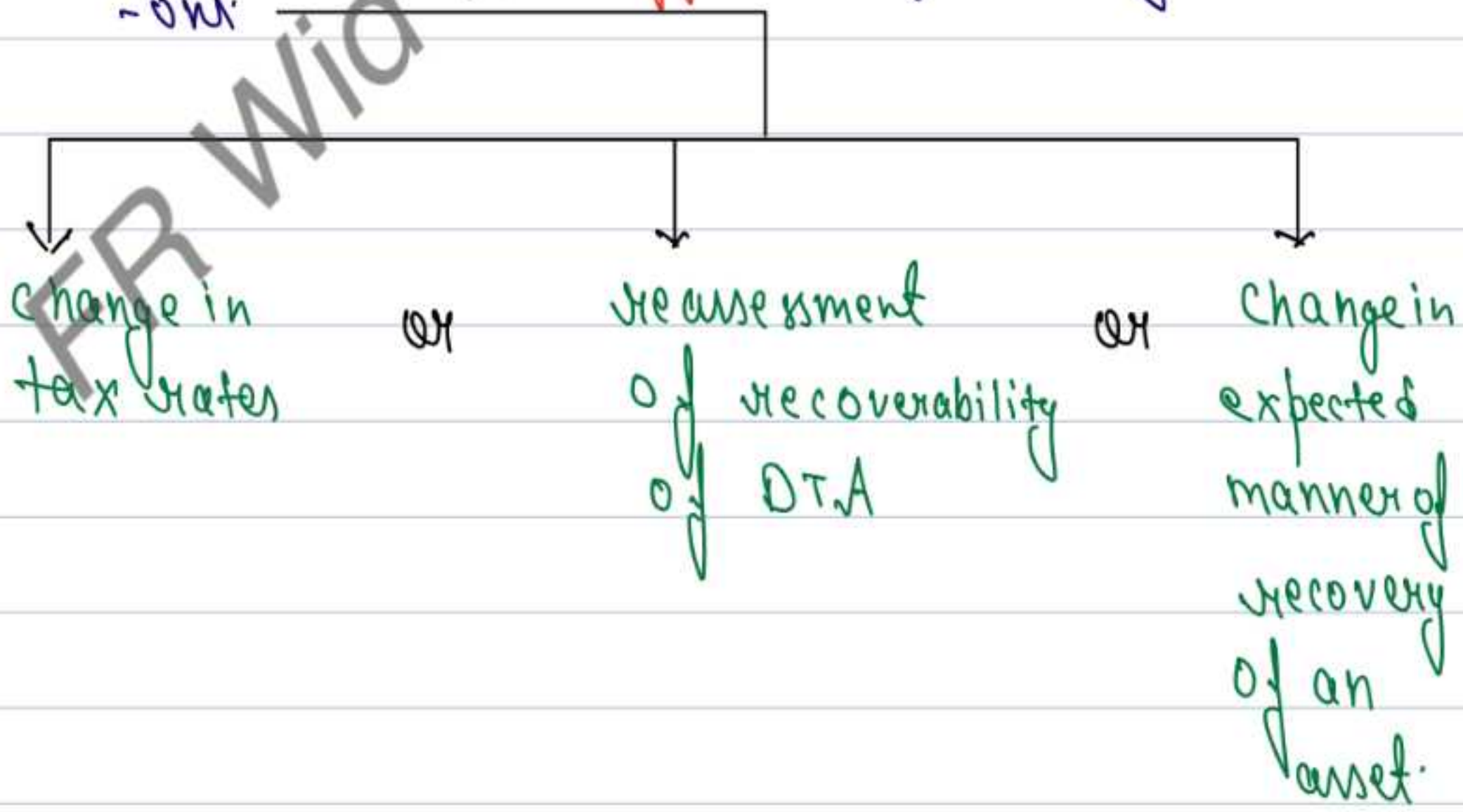
↓

Not covered in tax laws.

Accounting for Deferred tax :-



note :- C.A. of DTA / DTL may change even though there is no change in the amount of related temp. diff. in following 3 situations -



Offsetting of DTA/DTL :- allowed only  
↓  
as discussed  
in current  
tax.

### Illustration 10

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

- On 1<sup>st</sup> April 20X1, K Ltd purchased an equity investment for ₹ 2,00,000. The investment was designated as fair value through other comprehensive income. On 31<sup>st</sup> 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.
- On 1<sup>st</sup> 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 31<sup>st</sup> March 20X2, A Ltd had sold 40% of these goods, selling the remaining during next year.
- On 31<sup>st</sup> 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 1<sup>st</sup> November 20X1 to 31<sup>st</sup> July 20X2. K Ltd recognised revenue of ₹ 1,20,000 in respect of this transaction in the year ended 31<sup>st</sup> March 20X2 and will recognise the remainder in the year ended 31<sup>st</sup> March 20X3. Under the tax jurisdiction in which K Ltd operates, ₹ 2,00,000 received on 31<sup>st</sup> October 20X1 was included in the taxable profits of K Ltd for the year ended 31<sup>st</sup> 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 31<sup>st</sup> March 20X2. Assume tax rate to be 25%.

Sol<sup>n</sup> :-

Particulars.	T. B.	C. A.	Diff	Def. tax
i) invt in eq. Shares.	200000	240000	40000 (TT.D.)	10000 DTL.

D. Tax exps (OCI) Dr 10000  
To DTL 10000

ii) inventory	48000 (WN)	38400 (WN)	9600	2400 DTA DTA Dr 2400 To D.T. 2400 (PI)
---------------	---------------	---------------	------	--

WN	K	A.	profit -
	cost	SP	
	64000	80000	16000
40% sold to 3rd party.	(25600)	(32000)	
	<u>38400</u>	<u>48000</u>	
	↓	↓	
	<u>C.A.</u>	<u>T.B.</u>	
	(as per bo. A)	(I.T. act.)	

iii) Ad. income.	0	8000	8000	2000
------------------	---	------	------	------

(Liability)

(2L - 1.20K)

DTA.

DTA

Dr

20K

To Def. tax (PIL)

20K.

Current tax

Taxable profit

$\Rightarrow 2L \times 45\%$

$\Rightarrow 50000$  (C. Tax)

Q.9 of TYK SM

An entity is finalising its financial statements for the year ended 31<sup>st</sup> March, 20X2. Before 31<sup>st</sup> 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 30<sup>th</sup> 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.

Sol<sup>n</sup>:-

DTA  $\Rightarrow$  80000 (40%)

PIL

52000 → 40%

58500 → 45%

$(\frac{52K}{40\%} \times 45\%)$

↑ in DTA.  
6500

DTA Dm 6500  
To DT (PIL) 6500

O CI

40% → 28000

45% → 31500

$(\frac{28K}{40\%} \times 45\%)$

↑ in DTA  
3500

DTA Dm 3500  
To DT (OCI) 3500

DTL @ 40% ⇒ 60000

45% ⇒ ?

$\frac{60000}{40\%} \times 45\%$

⇒ 67500

↑ in DTL.

7500

DT Exp (PIL) Dm 7500

To DTL 7500

# Special Issue 1 :- Business Combination

if item relates to BIC then it will be adjusted against goodwill.

Already covered in Ind AS 103  
 ↓  
 Step 3  
 ↓  
 Note 1

Q.5 TYK

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

₹ 000's

	<u>F.A.</u> Fair Value	<u>T.B.</u> Carrying amount	Temporary Difference
Plant and Equipment	250	260	(10)
Inventory	120	125	(5)
Debtors	<u>200</u>	<u>210</u>	<u>(10)</u>
9% Debentures	<u>(100)</u>	<u>(100)</u>	—
	470	495	(25)
Consideration paid (P.C.)	<u>500</u>	<u>500</u>	—
Goodwill	<u>30</u>	<u>5</u>	<u>(25)</u>

3 DTA  
 1.5 DTA  
 3 DTA  
7.5 DTA  
0

Assume tax rate as 30%.

Calculate deferred tax asset assuming that the carrying amount is the tax base and prepare the journal entries.

In this case there is a Deferred Tax Asset as the Tax base of assets acquired is higher by 25,000. DTA would be ₹ 7,500 (25,000 x 30%)

**Journal entry:**

Plant and equipment	Dr	250	
Inventory	Dr	120	
Debtors	Dr	200	
Goodwill (Bij)	Dr	22.5 (30- 7.5)	
DTA	Dr	7.5	
To 9% Debentures			100
To Bank (P.C.)			500

Q.10 TYK

RTP  
Nov  
20

On 1<sup>st</sup> January 20X2, 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 (Ignore)	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.

40% ✓  
@  
D.T. ~~30%~~

Sol<sup>n</sup>

	T. D.	D. T.
L & B	200	80 (DTL)
PPE	70	28 "
Inventory	20	8 (DTA)
Retirement.	100	40 DTA

Net DTL 60

(₹ in '000)

PC	1500
- Net assets	(1010)
- DTL	
(1070 - 60)	
g/w	<u>490</u>

### Special Issue 2 is Asset Acquisition

if initial recognition of an asset/liability is a transaction which

is not a BIC.

at the time of transaction,

neither affects. giving profit now

Taxable profit.

Then **No DTA/DTL** is to be recognised.

Special Issue 3 :- Share based payment.

eg → 1-4-21 Co. announce. 3 yr esop plan.  
V.P. = 3 years.  
no. of emp = 50 F.V. share → 75/share.  
no. of sh = 100

tax 30%

$$\Rightarrow \frac{50 \text{ emp.} \times 100 \text{ sh.} \times 75 \text{ ₹}}{3}$$

$$\Rightarrow 125000$$

	T.B.	C.A.	Diff.	D. Tax
i) s BP yr 1 end.	125000	0 (always 0)	125000 (DTD)	37500 DTA.

yr 2 end. 250000  
(cumulative till 2nd yr)

250000

75000  
DTA

DTA Dr 37500  
 To D.T. (exps) (P/L) 37500

Yr 3 end ~~37500~~ 0

bcz in yr 3 end full deduction is allowed as in Tax laws.  
 $\therefore T.B \geq 0$

~~No entry~~

DT exps Dr 75k  
 To DTA 75k  
 Reversal

**SBP in Ind AS 12**

- CA  $\Rightarrow$  always zero
- T.B  $\Rightarrow$  all exps. p.a. (cumulative)
- Diff  $\Rightarrow$  always create DTA.
- last year  $\Rightarrow$  Reversal of DTA

Illustration 5

On 1<sup>st</sup> April 20X1, P Ltd. had granted 1 Cr share options worth ₹ 4 Cr s(fair value) 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 31<sup>st</sup> March 20X2 was ₹ 1.60 Cr and at 31<sup>st</sup> March 20X3 was ₹ 4.60 Cr. The increase in the fair value of the options on 31<sup>st</sup> March 20X3 was not foreseeable at 31<sup>st</sup> March 20X2. The options were exercised at 31<sup>st</sup> March 20X3.

Pg. 9.59  
of S.M.

Give the accounting for the above transaction for deferred tax for period ending 31<sup>st</sup> March, 20X2 and 31<sup>st</sup> 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.

Sol<sup>n</sup> :- VP = 2 years.

	T. B.	C. A.	Diff.	D. Tax
1-4-11	-	-	-	-
31-3-12	0.8 Cr ( $\frac{1.6 Cr}{2}$ )	0	0.8 Cr	0.24 Cr DTA.

DTA Dr 0.24  
To D.T. (PIL) 0.24.

31-3-13	0	0	0	0
---------	---	---	---	---

D.T. exps (PIL) Dr 0.24  
To DTA Reversal. 0.24.



↳ 75% of HDTA.

	T.B.	C.A.	Diff.	D.T.
Invt	500	500 + 75	75	22.5
		↳ 575		DTL

exception :- in case of

invt in S.

Diff Revenue

Div dist.

OR

Sale

H.D.T.A.

invt in

A & J.V.

Diff. revenue.

35% stake is with H.D.T.A.

No Control

Control of DT Ltd

HDLtd + other sh  
in agreement.

it decides not to  
distribute dividend &  
not to sale investment

decides  
& in J.V.

if both conditions are met  
then diff will not  
get reversed.

it will be o. th. Tem. diff.  
No DTA/DTL

Q2. On 1<sup>st</sup> April 20X1, ABC Ltd acquired 100% shares of XYZ Ltd for ₹ 4,373 crore. By 31<sup>st</sup> 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. Show deferred tax treatment. TYK Q.2.

	T.B.	C.A.	Diff.	D.T.
invtd.	4373	4378	5	—
			TTD.	(since tax rate not given)

Sol<sup>n</sup> A taxable temporary difference of ₹ 5 crore exists between the carrying value of the investment in XYZ at the reporting date of ₹ 4,378 crore (₹ 4,373 crore + ₹ 5 crore) and its tax base of ₹ 4,373 crore. 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.3. ABC Ltd. acquired 30% of the shares in PQR Ltd. on 1<sup>st</sup> January, 20X1 for ₹ 1,000 crore. By 31<sup>st</sup> 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. Show deferred tax treatment.

	T.B.	C.A.	Diff.	D.T.
inv't .	1000	1050	50	-
			TxD.	(since tax rate not given)

Sol<sup>n</sup> A taxable temporary difference of ₹ 50 crore therefore exists between the carrying value of the investment in PQR at the reporting date of ₹ 1,050 crore (₹ 1,000 crore + ₹ 50 crore) and its tax base of ₹ 1,000 crore. As ABC Ltd. does not completely control PQR Ltd. it is not in a position to control the dividend policy of PQR Ltd. As a result, it cannot control the reversal of this temporary difference and deferred tax is provided on temporary differences arising on investments in PQR Ltd. i.e. ₹ 50 crore.

13 If Q. is silent that there is no intention of selling investment. we will ans in both aspects.

usually →

Diff. Revenue.  
at end.

if Subsidiary is there,

& Co. decided  
not to

dist. Div.  
or sale invt

No DTA  
DTL

shall be recog  
nized.

as it is OTTO.

FR Wid HD (8871296220)