AS 22

1) Accounting profit (P&L) :- Net profit before Tax as per P&L a/c

2) Taxable Income :- Income Calculated as per IT Act.

3) Current Tax Expense :- Tax on Taxable Income

CT exp a/c Dr. (P&L)
To CT payable → provision for Tax.

4) Deferred Tax :- Tax on Temporary Differences between A/c Income & Taxable Income

DTA (Tax saving is expected in Future)

a) DTA a/c Dr.
To DT Income

DTL (Additional Tax will be payable in Future)

a) DT exp. a/c Dr.
To DTL a/c

b) DT Income Dr.
To P&L

b) P&L a/c Dr.
To DT Exp. a/c

5) Tax Expense =>

CT Expense
(+) DT Exp. (DTL)
(−) DT Income (DTA)

Tax Expense

6) Differences between A/c Income & Taxable Income

Timing Differences

Difference of A/c Income & Taxable income in One year which will be reversed in One or more Future years

Cy → A/c Income ↑, Taxable Income ↓

Next year → A/c Income ↓, Taxable Income ↑

Parmanent Difference

Differences between Taxable & A/c Income which will Never be reversed in Future.

→ NO DTA or DTL

* Timing Differences are also Called Temporary Differences.

* DTA/DTL Shall be Created Only on Timing Differences. (Temporary Differences).

7) Examples OF Timing & Parmanent Differences

Timing		Parmanent
Depreciation as per Books & IT	(only DTL or Reversal of DTL)	Donation to UnRecognised Trust disallowed Parmanently
Preliminary Exp. allowed 1/5 p.a.	only DTA or Reversal of DTA	Personal Exp. Of Director Debited in P&L
Provision For Bad debts	DTA or Reversal of DTA	Revaluation Reserve
Taxes payable (GST) But deduction based on Cash Payment (Sec 43B)	Same	Any Expense Which is parmanently disallowed (eg. Penalty)
Interest Payable Debited in P&L But deduction on Cash Basis (Sec 43B)	Same	Any Income which is parmanently Exempt (agri Income)
Any Expense disallowed in CY But deductible in Future	Same	

Income accrued in Cy But Taxable on Cash Basis in Future — DTL (or) Reversal of DTL

Unabsorbed Business Losses C/F — DTA (or) Reversal of DTA

Scientific Research Exp. 100% deduction in one year But D&A in Books. — DTL or Reversal of DTL

8) DTA & DTL on Timing/Temporary Difference

Deductible Timing Difference (Future at Exp. on Deduction milega)

1) When this Difference arise in Cy
↳ DTA Creation

DTA a/c Dr.
To DT Income (P&L)

2) When Difference will be reversed in Future
↳ DTA Reversal

(P&L) DT Exp. A/c Dr.
To DTA a/c

Taxable Timing Difference (Future at Taxable Income Badhega)

1) When this Difference arise in Cy
↳ DTL Creation

(P&L) DT Exp. a/c Dr.
To DTL a/c

2) When Difference will be reversed in Future
↳ DTL Reversal

DTL a/c Dr.
To DT Income (P&L)

9) What is Tax Expense?

Current Tax Expense	xxx	CTL
(+) DT Expense	xxx	DTL DTA (R)
(-) DT Income	xxx	DTA DTL (R)
(+) Excess of MAT over CT (exp) (Refer Q301)	xxT	MAT Liab.
Tax Expense		

MAT = BP x MAT (%)

(-) CT = Taxable Income x Normal Tax Rate

Excess

Tax Expense → this is the amt. of Tax Debited to P&L

10) Treatment of MAT :- (Refer Q301)

Step 1:- Calculate MAT = Book profit (X) MAT %

Step 2:- Calculate CT = Taxable profit (X) Normal Tax Rate

Step 3:- Excess of MAT Over CT = Step 1 − Step 2

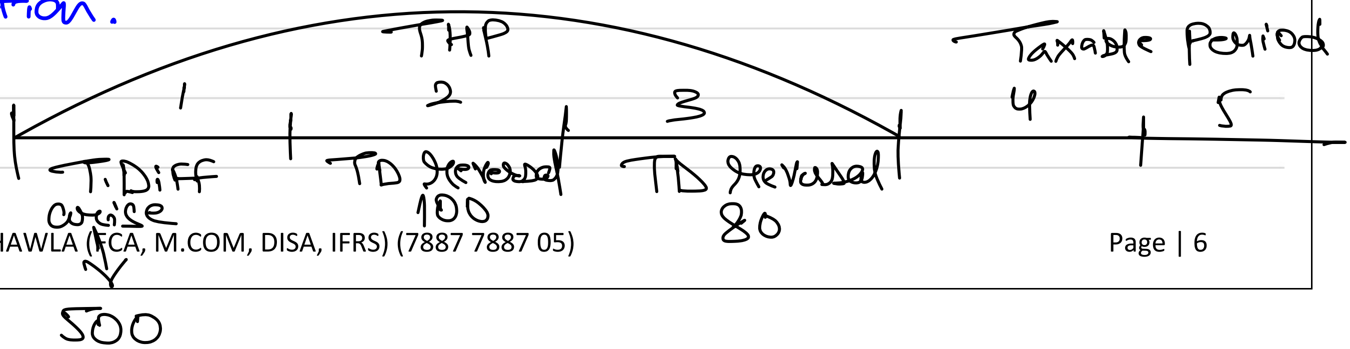
This Excess is also a part of Tax expense & added in Tax expense of P&L.

> **Note:-** For DT Calculate, We shall always Consider Regular Tax Rate & A/c Income.
>
> Never Use MAT Rate & Book profit.

11) Tax Holiday period :- Tax ~~ori~~ Chutti For Some years.

No Tax For Some Specified years.

Any Timing Difference which is expected to be reversed in Tax Holiday period is Waste & No DTA/DTL Shall be Created on such portion.



DT will be Created only on 320 T.D on 1st yr.

Note:- Reversal will be done on FIFO Basis

(Refer Q402)

12) DTA Recognition as per Para 15 & Para 17

Create DTA only if Entity is expecting Sufficient Taxable profits in future.

→ Hum Future Taxable profits Ka Kyu soch rahe है?

→ So that we can claim Deductions against such Taxable profits

→ Hum Deductions का Kyu soch rahe Hai?

→ Kyunki DTA always Future expected Deduction का असर बताता है!

Certainty of Future Taxable Income	
Reasonable Para 15	Virtual Para 17
Based on Past Experience	Near to or more than 90% probability of Earning Income
It is more likely that future taxable income will be available i.e. more than 50% Probability	Surety of sufficient future taxable Income For this level of surety convincing evidence should be available. Then only DTA to be created
Deductible Timing difference for which Reasonable Certainty is to be checked are: 1) ~~Depreciation~~ 2) Provision for Bad Debts 3) Sec 43B (Disallowed item)	Deductible Timing difference for which VCCE is to be checked are: C/f Business Losses, and Unabsorbed Depreciation

13) Other Important Provisions :-

- No Discounting (No PV) For DTA | DTL
- Which Tax Rate should be Considered ?
  - For Calculation of CT → Take applicable Tax Rate of Cy Only
  - For Calculation of DT →
    - 1st priority: Take Future Tax Rate if Known in Cy & if it is Substantively enated
    - 2nd priority → Take Cy Tax Rate
- Presentation of CT & DT
  - CTL ⇒ STP in B/S
  - DTL ⇒ Non Current Liab. (Separate Head)
  - DTA ⇒ Non Current Asset (Separate Head)
    - Can DTA & DTL be Set off ?

It Can be Setoff
Only if it is
Legally Permisible

Note:- In Case of Individual Assessee DT shall be Calculated as per Weighted Avg. Tax Rate

$$\frac{\text{Total Tax}}{\text{Total Taxable Income}} \times 100$$

(Refer Q601)