STUDENT NOTES

SCOPE

- This standard is applied to taxes on income (income tax).
- This includes all domestic & foreign taxes which are based on taxable income.
- Not applicable on dividend distribution tax.

BASIC DEFINITIONS

As per accounts

ACCOUNTING INCOME

Accounting income is the net profit/loss before tax for the period as per the statement of P&L.

IT Act

TAXABLE INCOME

Taxable Income is the income/loss as determined by the income tax laws.

DEFERRED TAX

Deferred tax is the tax effect of timing differences.

Tax payable

CURRENT TAX

Current tax is the amount of income tax payable/recoverable for a period (tax liability as per income tax laws).

Accounts → Tax

TAX EXPENSE

Tax expense is the total of current tax and deferred tax charged or credited to P&L.

CT + DTL   CT - DTA

REASONS FOR DIFFRENCES BETWEEN ACCOUNTING INCOME AND TAXABLE INCOME

TIMING DIFFERENCE

- It is the difference that arises in one period and is capable of being reversed in one or more subsequent periods it is called timing difference.

- Deferred Tax Asset/Deferred Tax Liability should be created for all timing differences in the year in which difference arises and should be reversed in the subsequent years when the difference is rectified.
  Example 1: Depreciation as per accounts & as per tax records.
  Example 2: Interest Expenses as per accounts- recognized as & when accrues.
  Interest Expense as per sec 43B of the Income tax Act – recognized when paid.

CA Tejas Suchak

Accounts
↓
P&L
↓
PBT → Cr.
↓
TR = 30% = Tax expense → - Dr.
↓
JE

Income Tax Act, 1961
↓
Gross Total Income
↓
TR = 30% = Tax payable

Tax Expense (P&L) Dr. → As per accounts.		300,000
To provision for taxation / tax payable → Income tax act		200,000
To Deferred Tax Liability		100,000

Tax Expense (P&L) Dr. → As per accounts.		300,000
Deferred Tax Asset Dr.		100,000
To provision for taxation / tax payable → Income tax act		400000

P&L

PBT → Tax expense	

This much amt of tax will be recored in books of accounts. →

Tax Expense (As per accounts) = Current Tax (Tax payable) (IT Act 1961) + Deferred Tax Liability

Tax Expense = Current Tax - Deferred Tax Asset

For this As to be brought into question, there has to be a difference in Accounting Income and Taxable Income.

This difference between Accounting Income and Taxable Income should be a timing difference and not a permanent Difference.

Example 1:-

Accounting Income before depreciation = 500000
Taxable Income before depreciation = 500,000

Depreciation as per accounts = 50000 each year.
Depreciation as per tax = 150000 (i.e. 100% in y_1)

Y1

Accounts			Tax	
AI =	500000		TI :	500000
− D =	50000		− D :	150000
PBT =	450000	Depreciation	GTI =	350000
TR@30% =	135000		TR@30% =	105000
	↓ Tax Expense	Timing Difference		↓ Tax payable

Tax Expense a/c	Dr.	135000	
To, tax payable			105000
To, Deferred tax liability			30000

Y2

Accounts		Tax	
AI =	500000	TI :	500000
− D =	50000	− D :	0
PBT =	450000	GTI =	500000
TR@30% =	135000	TR@30% =	150000
	↓ Tax Expense		↓ Tax payable

Tax Expense (P&L)	Dr.	135000	
(Reversal of) DTL	Dr.	15000	
To, tax payable			150000

(Balance of DTL = 30000 − 15000 = 15000/-)

Y3

Accounts		Tax	
AI =	500000	TI :	500000
− D =	50000	− D :	0
PBT =	450000	GTI =	500000
TR@30% =	135000	TR@30% =	150000
	↓ Tax Expense		↓ Tax payable

Tax Expense (P&L)	Dr.	135000	
(Reversal of) DTL	Dr.	15000	
To, tax payable			150000

(Bal of DTL = 15000 − 15000 = 0)

Timing Difference :- is the difference in Accounting and Taxable Income that arises in one year and is capable of being reversed in one or more future years.

Deferred Tax :- Is the tax effect of timing difference

$\boxed{\text{Timing Difference} \times \text{Tax Rate}}$

Example for permanent difference

Donation given not as per section 80G of IT Act

Accounts			Tax		
AI	=	500000	TI	=	500000
– Don	=	50000	– Don	=	x
PBT	:	450000	GTI	=	500000
TR	=	135000		=	150000

135000 ⇓ Tax Expense

150000 ⇓ Tax payable

Permanent Difference
↓
because this difference will never be reversed in future.
↓
Hence, no DTA or DTL will be recognised for this difference.

Agri Inc
Pre exp

Another example of timing difference

Interest accrued but not paid = 30000.

Accounts			Tax		
AI	=	100000	TI	=	100,000
– Interest	.	30000	– Int	=	0
PBT	=	70000	GTI	=	100000
Tax	=	21000	Tax	=	30000

21000 ↓ Expense

Timing Difference
↓
30000 x 30% = 9000

Tax Expense	Dr.	21000	
DTA	Dr	9000	
To tax payable			30000

Preliminary Expenses = 50000

Y1

Accounts			Tax	
AI =	100000		TI =	100,000
− P.E. =	50000		− P.E. =	10000 (50000×1/5)
PBT =	50000	Timing Difference	GTI =	90000
Tax =	15000		Tax =	27000

15000 ↓ Expense

Timing Difference ↓

40000 × 30% = 12000

Tax Expense (P&L)	Dr.	15000	
DTA	Dr.	12000	
To Tax payable			27000

Y2 :-

Accounts			Tax	
AI =	100000		TI =	100,000
− P.E. =	0		− P.E. =	10000 (50000×1/5)
PBT =	100,000	Timing Difference Reverse	GTI =	90000
Tax =	30000		Tax =	27000

30000 ↓ Expense

10000 × 30% = 3000 ⇒ DTA Reversed

Tax Expense	Dr.	30000	
To Tax payable			27000
To DTA (reversed)			3000

Similarly for y3, y4, y5.

Example :-

Agricultural Income = 100000.

Accounts	Tax
AI = 500000	TI = 500,000

Agricultural Income will lead to a permanent difference, hence no DTA / DTL will be recognised for the same.

DTA recognition criteria :- DTA can be recognised only when there is reasonable certainity that sufficient future taxable income will be available against which such DTA can be realised.

DTA recognition criteria incase of carried forward losses and unabsorbed depn

In this case DTA will be recognised only when there is virtual certainity supported by convincing evidence that sufficient future taxable income will be available against which such DTA will be realised.

ACCOUNTS			TAX		
AI	=	100000	TI	=	100000
			−		50000
PBT	=	100000	GTI	=	50000
Tax	=	30000	Tax	=	15000

c/f losses = 50000

future economic benefit

Because of c/f and unabsorbed depn there arises a DTA.

Treatment of Timing Difference that arises and reverses in the Tax Holiday period.

Continuing Example 1

Example 1:-

Accounting Income before depreciation = 500000
Taxable Income before depreciation = 500000
Depreciation as per accounts = 50000 each year.
Depreciation as per tax = 150000 (i.e. 100% in y_1)
This entity has a 5 year tax holiday.

Y1

Accounts			Tax		
AI	=	500000	TI	=	500000
− D	=	50000	− D	=	150000
PBT	=	450000	GTI	=	350000
TR@30%	=	135000	TR@30%	=	105000
		↓ Tax Expense			↓ Tax payable

Depreciation ↓ **Timing Difference**

Y2

Accounts		**Tax**	
AI =	500000	TI :	500000
− D =	50000	− D :	0
PBT =	450000	GTI =	500000
TR@30% =	135000	TR@30% =	150000
	↓ Tax Expense		↓ Tax payable

Tax Expense (P&L) Dr. 135000
(Reversal of) DTL Dr. 15000 (Balance of DTL = 30000 − 15000)
To, tax payable 150000 = **15000/-**

Y3

Accounts		**Tax**	
AI =	500000	TI :	500000
− D =	50000	− D :	0
PBT =	450000	GTI =	500000
TR@30% =	135000	TR@30% =	150000
	↓ Tax Expense		↓ Tax payable

Tax Expense (P&L) Dr. 135000
(Reversal of) DTL Dr. 15000 (Bal of DTL = 15000 − 15000 = 0)
To, tax payable 150000

* for timing differences that arise and reverse in the tax holiday period no DTA/DTL will be recognised. This is because the benefit/burdon will accrue during the holiday period and hence will have absolutely zero effect.

* for DTA/DTL that arises during tax holiday period and reverses after the tax holiday period, the DTA/DTL will be recognised.

Example :- PPE = 1000
Depn as per accounts : SLM ; useful life = 10 years
Depn as per tax : WDV ; 15% p.a.
Tax holiday period = 10 years.

Accounts | **Tax**

Depn Y1 = 100 TD arise { 50 Depn Y1 = 150

Y_2 = 100	27.5	DTL arises	Y_2 = 127.5
Y_3 = 100	8.375		Y_3 = 108.375
Y_4 = 100	TD reverse : 7.882	DTL revers.	Y_4 = 92.118
Y_5 = 100	21.7		Y_5 = 78.30
Y_6 = 100	33.44		Y_6 = 66.56
Y_7 = 100	TD: 43.43 → 22.85 → rev of DTL; 20.58		Y_7 = 56.57
Y_8 = 100	51.92	DTA arises	Y_8 = 48.08
Y_9 = 100			Y_9 = 40.87
Y_{10} = 100			Y_{10} = 34.74
Y_{11} = 0	< Y_{11}	DTA reversal	Y_{11} = x

Timing Difference Arises = 85.875 ⇒ TD arises in Tax Holiday period
↳ no DTL will be recogn.

Timing Difference Reverse = 85.875 → Y_7 reverse
7.882 Y_4 → TD reverses in Tax Holiday period
+ 21.7 Y_5
+ 33.44 Y_6
+ 22.85 (Y_7 bal. fig.)

In year 7 DTA arises of 20.58.
similarly in year 8, 9 and 10 DTA arises } ⇒ This DTA arises during tax holiday period.

This DTA reverses from Y_{11} } ⇒ i.e. after tax holiday period.

Hence the DTA that arises in Y_7, Y_8, Y_9, Y_{10} will be recognised.

A	T
1000	1000
-D 100	-D 56.57
PBT ↓	GTI ↑
T ↓	T ↑
exp ↓	pay ↑

DTA

Accounting for Taxes on Income in the situations of Tax Holiday under sections 10A and 10B of the Income Tax Act, 1961

The deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognised in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence as laid down in AS 22.

For the above purposes, the timing differences which originate first should be considered to reverse first.

Accounting for Taxes on Income in the context of section 115JB of the Income Tax Act, 1961

The payment of tax under section 115JB of the Act is a current tax for the period. In a period in which a company pays tax under section 115JB of the Act, the deferred tax assets and liabilities in respect of timing differences arising during the period, tax effect of which is required to be recognised under AS 22, should be measured using the regular tax rates and not the tax rate under section 115JB of the Act. In case an enterprise expects that the timing differences arising in the current period would reverse in a period in which it may pay tax under section 115JB of the Act, the deferred tax assets and liabilities in respect of timing differences arising during the current period, tax effect of which is required to be recognised under AS 22, should be measured using the regular tax rates and not the tax rate under section 115JB of the Act.

Acc
AI = 100000
-30000 -
70000 ↓ PBT
× 50%
35000 ↓ TE
↓
Exp

Tax
TI = 100000
× -
100000 GTI ↑
× 50%
50000 TP ↑
↓
Pay

DTA

AI 10L − D 2L = 8L; 4L exp

TI 10L − 5L = 5L; 2.5L pay

300000 × 50% = 150000 DTL

Acc. 30 AI ↓ ; 30000 × 50% TI ↑ ; Exp ↓ Pay ↑ ; DTA = 15000

Net DTL = 135000

Illustration 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

Timing Diff ; → TD diff

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

reasonable certainity

Solution

Table showing calculation of deferred tax asset / liability

Particulars	Amount	Timing differences	Deferred tax	Amount @ 50%
	₹			Tax ₹ effect
Excess depreciation as per tax records (₹ 5,00,000 – ₹ 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

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.

Tax Expense → current tax + DTA/DTL

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%*

1. Current Tax (Tax payable)

60000 × 20% = 12000

350000 × 7.5% = 26250

Higher = 26250

2: DTA/DTL

AI 600000 × 20% = 120000

TD: 540000 × 20% = 108000

TI 60000 × 20% = 12000

DTL = 108000

3: Tax expense = 26250 + 108000 = 134250 → P&L Dr.

Solution

Tax as per accounting profit 6,00,000×20% = ₹ 1,20,000

Tax as per Income-tax Profit 60,000×20% = ₹ 12,000

Tax as per MAT 3,50,000×7.50% = ₹ 26,250

Tax expense= Current Tax +Deferred Tax

₹ 1,20,000 = ₹ 12,000+ Deferred tax

Therefore, Deferred Tax liability as on 31-03-20X1

= ₹ 1,20,000 – ₹ 12,000 = ₹ 1,08,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-20X1

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ₹ 12,000 + ₹ 1,08,000 + ₹ 14,250 (26,250 – 12,000) = ₹ 1,34,250

Illustration 3

Quote

carry forward losses → Virtual certainty supported by convincing evidence

PQR Ltd.'s accounting year ends on 31st March. The company made a loss of ₹ 2,00,000 for the year ending 31.3.20X1. For the years ending 31.3.20X2 and 31.3.20X3, it made profits of ₹ 1,00,000 and ₹ 1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.20X1, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 20X2 and 20X3 for tax purposes. Prepare a statement of Profit and Loss for the years ending 20X1, 20X2 and 20X3.

Solution

Statement of Profit and Loss

	31.3.20X1 ₹	31.3.20X2 ₹	31.3.20X3 ₹
Profit (Loss)	(2,00,000)	1,00,000	1,20,000
Less: Current tax (20,000 x 40%)			(8,000)
Deferred tax:			
Tax effect of timing differences originating during the year (2,00,000 x 40%)	80,000		

Year Ended	31.3.21	31.3.22	31.3.23
AI	-200000	100000	120000
TI	0	100000 - 100000 = 0	120000 - 100000 = 20000
Timing Diff	200000 (arise) →	100000 (rev.) Bal. TD = 100000 x	100000 (rev.) Bal. TD = 0
Tax Rate	40%	x 40%	x 40%
DTA	80000	Bal of 40000	Bal of DTA = 0
	Recogn.	$\boxed{\text{DTA rev = 40000}}$ x	DTA reversal = 40000

* Virtual Certainity
* Convincing Evidence

P	xx	L	xx

Deferred Tax is the tax effect of T.D.

31.3.22
200000 - 100000
= 100000
x 40%

80000 → DTA Bal.   40000 → DTA Bal.

40000 → Reversal.

P&L	Year 1	Year 2	Year 3
Accounting Income =	- 200000	100000	120000
Tax @ 40% -	80000	(40000)	(48000)
Net pft/loss after tax effect =	- 120000	60000	72000
		Tax exp.	Tax exp.

Tax effect of timing differences reversed/adjusted during the year (1,00,000 x 40%)		(40,000)	(40,000)
Profit (Loss) After Tax Effect	1,20,000	60,000	72,000

Illustration 4

A1

Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statements during 20X0-20X1, 20X1-20X2 and 20X2-20X3 for ₹ 11,00,000, ₹ 16,00,000 and ₹ 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹ 7,00,000, ₹ 18,00,000 and ₹ 23,00,000 for the years 20X0-20X1, 20X1-20X2 and 20X2-20X3 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 20X0-20X1, 20X1-20X2 and 20X2-20X3.

Solution

Calculation of Deferred Tax Asset/Liability in Omega Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
20X0-20X1	11,00,000	7,00,000	4,00,000	4,00,000	1,40,000	1,40,000
20X1-20X2	16,00,000	18,00,000	(2,00,000)	2,00,000	(70,000)	70,000
20X2-20X3	21,00,000	23,00,000	(2,00,000)	NIL	(70,000)	NIL
	48,00,000	48,00,000				

Reference: The students are advised to refer the full text of AS 22 "Accounting for Taxes on Income"

Illustration 4:-

	10-11	11-12	12-13
AI	1100000	1600000	2100000
TI	700000	1800000	2300000
TD	400000	200000 (rev.) Bal of TD = 200000	200000 (rev.) Bal. of TD = 0
Tax@35%	140000 (Bal of DTL)	70000 (Bal of DTL)	0 (Bal. of DTL)

DTL reversed = 70000

DTL reversed = 70000

Answer to the Multiple Choice Questions

1.	(c)	**2.**	(d)	**3.**	(a)	**4.**	(d)

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *As per AS 22 on 'Accounting for Taxes on Income', tax expense is:*

   (a) Current tax + deferred tax charged to profit and loss account

   (b) Current tax-deferred tax credited to profit and loss account

   (c) Either (a) or (b)

   (d) Deferred tax charged to profit and loss account

2. *G Ltd. has provided the following information:*

   HW

   E↓ I↑ TE↑   E↑ I↓ TP↓

   Depreciation as per accounting records = ₹ 2,00,000

   Depreciation as per tax records = ₹ 5,00,000

   DTL

   There is adequate evidence of future profit sufficiency.

   How much deferred tax asset/liability should be recognized as transition adjustment when the tax rate is 45%?

   (a) Deferred Tax asset = ₹ 2,70,000.

   (b) Deferred Tax asset = ₹ 1,35,000.

   (c) Deferred Tax Liability = ₹ 2,70,000

   (d) Deferred Tax Liability = ₹ 1,35,000.

3. *State which of the followings statements are correct:*

   (1) There are no pre-conditions required to recognize deferred tax liability,

   (2) Deferred tax asset under all circumstances can only be created if and only if there is reasonable certainty that future taxable income will arise.

   minimum

   2 circumstances → virtual certainty with convincing evidence

   (a) Both are correct.

   (b) Only (1) is correct.

   (c) Only (2) is correct.

   (d) None of the statements are correct.

4. *Which of the following statement are incorrect:*

   (a) *Only timing differences result in creation of deferred tax.* ✓

   (b) *Permanent differences do not result in recognition of deferred tax.* ✓

   (c) *The tax rate used for measurement of deferred tax is substantively enacted tax rate.*

   (d) ✗ *The entity has to recognize deferred tax liability/asset arising out of timing difference. There are no conditions which are required to evaluated for their recognition.*

Theoretical Questions

AI TI

5. *Write short note on Timing differences and Permanent differences as per AS 22.*

AI ↑ TI ↓

TE ↑ TP ↓

DTL

Scenario based Questions

Tax holiday

Y1 + Y2 = 600L = DTL

Y3 - Y10

DTL rev = 10x8 = 80L

6. *Y Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference is INR 200 lakhs and INR 400 lakhs respectively which will result in a tax liability in year 1 and 2. From the third year it is expected that the timing difference would reverse each year by INR 10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.*

7. *Ultra Ltd. has provided the following information:* → HW

   Depreciation as per accounting records =INR 4,00,000

   Depreciation as per tax records =INR 10,00,000

   Unamortized preliminary expenses as per tax record = INR 30,000

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

8. *Saras Ltd. closes its books as on 31st March 20X2. They have accrued ₹ 5,00,000 towards GST Liability for the month of March 20X2 by debiting their Profit and loss statement which is expected to be paid off by 21st April*

20X2 . As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Assuming a Tax rate of 30% determine the Deferred Tax Asset/Liability as at 31st March 20X2.

9. *ABC Company limited had an investment in Venture Capital amounting ₹ 10 Crores. Venture capital in turn had invested in the below portfolio companies (New Start- ups) on behalf of ABC Limited:*

Portfolio Companies	***Amount of investment (₹ in Crores)***
Oscar Limited	*2*
Zee Limited	*3*
Star Limited	*4*
Sony Limited	*1*
Total	*10*

During the FY 2019-2020, Venture Capital had sold their investment in Star Limited and realised an amount of ₹ 8 Crores on sale of shares of star Limited and entire proceeds of ₹ 8 Crores have been transferred by Venture Capital to ABC Company Limited.

The accounts manager has received the following additional information from venture capital on 31.03.2020:

(1) 8 Crores has been deducted from the cost of investment and carrying amount of investment as at year end is 2 Crores.

(2) Company had to pay a capital gain tax @ 20% on the net sale consideration of ₹ 4 Crores.

(3) Due to COVID-19, the remaining start- ups (i.e. Oscar Limited, Zee Limited, and Sony Limited) are not performing well and will soon wind up their operations. Venture capital is monitoring the situation and if required they will provide an impairment loss in June 2020 Quarter.

You need to suggest the accounts manager what should be the correct accounting treatment as per AS 22 "Accounting for Taxes on Income".

	TD arise	Tax holiday TD rev.	Bal TD			
Y1	200L	−80L	= 120L	× 40%	= 48L	→ DTL recog.
Y2	400L	− 0	= 400L	× 40%	= 160L	→ DTL recog.

= 120L DTL Bal. → will be reversed after tax holiday reversed.

Y3 − Y10

10×8 = 80L

hence, will be recognised in full. Deferred tax liability amounting 160 lakhs (40% of 400 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be 208 lakhs (48 lakhs + 160 lakhs).

7. **Calculation of difference between taxable income and accounting income**

Particulars	Amount (₹)
Excess depreciation as per tax ₹ (10,00,000 – 4,00,000)	6,00,000
Less: Expenses unamortized in tax records	(30,000)
Timing difference	5,70,000

Tax expense is more than the current tax due to timing difference.

Therefore deferred tax liability = 50% x 5,70,000 = 2,85,000

8. **Calculation of difference between taxable income and accounting income**

Particulars	Amount (₹)
GST Liability debited in books	5,00,000
Less: GST Liability allowed under Income Tax Act (Section 43B)	Nil
Timing difference	5,00,000

Tax expense is less than the current tax due to timing difference.

Therefore, deferred tax Asset = 30% x 5,00,000 = 1,50,000

9. As company had to pay capital gain tax @ 20% on the net sale consideration as per income tax laws, the company has to recognise a current tax liability of 0.8 Crores computed as under:

Particulars	Amount (₹ in Crores)
Sales Consideration	8
Cost of Investment	4
Net gain on Sale	4
Tax @ 20%	0.8

As per AS 22, Timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Particulars	Amount (₹ in Crores)	Rationale
Taxable Income	4	As per income tax laws
Accounting Income	Nil	As the same is deducted from the cost of investment
Timing Difference	4	

Investments - 10-8 = 2

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 recognise only current tax liability of ₹ 0.8 Crores.