12. AS 22 – ACCOUNTING FOR TAXES ON INCOME

Question 14:

Joy Ltd. wishes to calculate deferred tax as on 31st March 20X5. The Balance Sheet has been adjusted by current tax expense.

Summarised Balance Sheet as on 31st March 20X5: Cy X4-X5

ASSETS	**₹**
Non-current Assets	
Property, Plant and Equipment	12,00,000
Intangible Assets-Product Development Costs	60,000
Investment in Subsidiary - Pall Ltd.	4,40,000
Current Assets	
Trade Investments Cost-230000	2,08,000 Cy 22000 Loss.
Trade Receivables	6,26,000
Inventories	3,04,000
Cash and Cash Equivalents	1,80,000
TOTAL ASSETS	**30,18,000**
EQUITY & LIABILITIES	**₹**
Equity	
Share Capital	12,00,000
Accumulated Profits	7,37,438
Revaluation Surplus	88,000
Non-current Liabilities	
Deferred Income - Government Grants	40,000
Liability for Product Warranty Costs	16,000
Deferred Tax Liability (From 20X3-20X4) Opng. Bal.	22,162
Current Liabilities	
Trade Payables	7,64,000
Health Care Benefits for Employees	70,000
~~Current Tax Liability~~ Other Curr. Liab.	80,400
TOTAL EQUITY & LIABILITIES	**30,18,000**

Notes:

(a) Depreciation expense for the year 20X4-20X5 allowable in accordance with tax laws is ₹ 2,06,000. Accounting depreciation included in operating costs is ₹ 1,70,000. Cost of PPE is ₹ 16,00,000 and Joy Ltd has deducted expenses of ₹ 4,16,000 in its tax returns prior to the financial year 20X4-20X5.

(b) In 20X1-20X2, Joy Ltd incurred product development costs of ₹ 1,00,000. These costs were recognized as an asset and being amortized over useful period of 10 years. For tax purposes, Joy Ltd deducted full product development costs in 20X1-20X2.

(c) Trading investments were acquired in 20X3-20X4 with cost of ₹ 2,30,000. These investments are marked to market through profit and loss and thus recognized at their fair value. Fair value adjustments are not tax deductible.

(d) Bad debt provision amounts to ₹ 1,30,000 recognised during the year and Tax law allows deduction in the year of actual bad debts. Actual bad debts have not occurred in the current year.

(e) Joy Ltd accounts for inventory obsolescence provision. New provision created in 20X4-20X5 was ₹ 10,800 (total provision: ₹ 18,000). This provision is not tax deductible, as it is a general provision.

(f) Government grants are not taxable. Government grant received in 20X4-20X5 is appearing in the balance sheet. Permanent Diff.

(g) In 20X4-20X5, Joy Ltd made a further provision for product warranty of ₹ 5,000. Such provisions for product warranty costs are not tax deductible until the claims are paid or settled. During the year 20X4-20X5, warranty claims were paid/settled for ₹ 6,200.

(h) During the year 20X4-20X5, Joy Ltd has introduced health care benefits for employees. The expenses are allowable as deduction in tax only when benefits are paid but in line with Ind AS 19, such liability is recognized in profit or loss when employees provide service.

Assume the tax rate is 32%. Assume Accounting Income = 30 lacs. (PBT)

Sol) :-

Calculation of Taxable Income & Taxes

Particulars	Amt.	Timing Diff.	DT
A/c Income	30,00,000		
(+) Dep as per Books Disallowed	170000	36000 Taxable	11520 (L)
(−) Depreciation as per Tax	(206000)		
(+) Disallowed amortised Product Develop. Cost	10000	DTL Reversal	3200 (L-R)
(+) Fair Value Loss (Unrealised) disallowed	22000	Deductible	7040 (A)
(+) Prov. for B.D disallowed	130000	Deductible	41600 (A)

(+) provision For Inventory oblesence disallowed	10800	Deductible	3456 (A)
(+) provision for product warranty	5000	1200 Taxable	384 (L)
(–) Warranty paid in Cash	6200	extra Deduction mil gaya	
(+) provision For Health Care BeneFits Disallowed	70000	Deductible	22400 (A)

Taxable Income 3205,600 — (A) 65792

DTA Dr.
To DT Income (P&L)

Current Tax exp. @ 32%	1025,792
(–) DT Income (DTA Created)	65792
Tax expense =	960000

B/S

Asset		
DTA (net)	65792	43630 DTA (NonCurrent Asset)
(–) opng DTL	(22162)	