

# IND AS 12-INCOME TAXES & ITS COMPARISON WITH AS-22

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**Abstract:** The object of study to comparative analysis of AS 22 & IND AS 12. It also cover calculation of tax expenses, DTA & DTL & accounting treatment of the same. It also covers To prescribe accounting treatment of income taxes How to account for Current & Future tax consequences of :

- future recovery/settlement of carrying amount of assets/liabilities
- transaction & other events of current period that are recognized

In comparative analysis, it reveal that of IND AS 12 having vast coverage in Compare to AS 22.

**Key Words:** IND AS, AS, DTA, DTL, tax expenses, Book profit, IT profit, temporary differences, permanent differences.

## 1. INTRODUCTION:

In changing scenario, accounting standards are need to be getting change, to fill the gap between accounting standards & IFRS. This paper focuses on accounting standard & its comparative study with IND AS regarding taxation. The comparative study shows that applicability of IND AS much more useful for recording as well as disclosure aspect.

**2. OBJECT:** Comparative analysis of AS 22 with IND AS 12. It is focuses on different methods us in above mention standards, its interpretation & applicability also.

**3. SCOPE:** The scope of study limited to specified accounting standard & IND AS but here I try to cover all aspect of both standards including its calculative part also which will helpful to understand its applicability & disclosure aspect.

## 4. DISCUSSION:

### AS 22- Accounting For Taxes Overview

**Objective:** To calculate Deferred Tax Asset & Deferred Tax Liabilities using difference between Accounting Income & Taxable Income.

Difference may be-

- **Timing difference-**  
It is not allowed in one year but may be allowed in future one/more year.
- **Permanent Difference-**  
Not to deductible/chargeable at any point of time.

### Recognition of deferred taxes:

- **DTL arises ,**  
If Book Profit > Profit as per Income tax
- $DTL = \text{Book Profit} - \text{IT Profit} \times \text{tax rate}$
- **DTA arises,**  
If Book profit < Profit as per Income Tax
- $DTA = \text{IT Profit} - \text{Book Profit} \times \text{tax rate}$

### However AS 22 does not cover following aspects-

- Deferred Taxes on unrealized intra group transaction
- Foreign currency transactions.
- Revaluation of assets/liabilities & intangibles
- AS 22 silent about tax benefit related to share based payment, business combination.

## 5. IND AS 12 INCOME TAXES:

### 5.1 Objective :

- To prescribe accounting treatment of income taxes
- How to account for Current & Future tax consequences of :  
- future recovery/settlement of carrying amount of assets/liabilities

- transaction & other events of current period that are recognized.

## 5.2 Scope:

### Applied to-

- Income taxes whether domestic or foreign taxes
- Withholding taxes which are payable by subsidiary, associates on distribution to reporting entity

### But does not includes-

- Methods of accounting for government grant
- Investment tax credits

## 5.3 Taxable Profit : How to calculate-

Profit/Loss before deducting tax expense

+ Expenses not allowable for tax purpose

- Expenses not recognized but allowable for tax purpose

+ Income chargeable to tax but not credited to profit & loss account

- Income not chargeable to tax but credited to profit & Loss account

## 5.4 Accounting Profit:

Profit determined as per books of accounts.

## 5.5 Current Tax

It is the amount of income taxes payable/recoverable in respect of taxable profit/taxable loss for the period

**i.e. taxable profit/loss X Tax rate%**

## 5.6 Tax Expenses/Tax income :

It comprises current tax expenses & deferred tax expense & incomes.

## 5.7 Deferred Tax Liabilities : are amount of income tax payable in future periods in respect of taxable differences.

**Deferred Tax Assets** : are amount of income taxes recoverable in future period in respect of :

- Deductible temporary differences
- Carry forward unused tax losses
- Carry forward unused tax credits

**Temporary differences** are difference between carrying amount of an asset or liability in the financial statement & its tax base.

It is of two types-

## 5.8 Taxable timing difference : when income/expense is included in accounting profit in one year but for tax profit more than one year.

It may arise in following cases :

- Depreciation on assets
- Interest as revenue charged in accounting profit but not added to tax profits.
- Goodwill arise in business combination
- Assets revalued but no adjustment made for tax purpose.

## 5.9 Deductible temporary difference:

which are temporary differences that will result in amounts that are deductible in determining taxable profit of future periods when the carrying amount of asset or liability is recovered/settled.

It may arise in case of –

- Retirement benefits
- Preliminary Expenses.

## Tax Base :

### 5.10 Tax Base Of Assets :

The tax base of an asset is the amount that will be deductible for tax purpose against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.

If economic benefit of asset is zero,

Tax base = carrying amount of asset.

### Various Cases Of Tax Base Of asset:

- If economic benefit is zero:

For e.g. cost of asset Rs.100 million, company charge depreciation Rs.5 million, while depreciation as per income tax Rs.20 million. So, tax base is Rs.80 million.

- In case of uncollected income:

For e.g. Interest receivable Rs.100.while for tax purpose chargeable on cash basis. So, tax base is nil.

## Tax base in case of consolidated financial statements :

Tax base is determined by reference to the tax return of each entity in the group.

For e.g. Indian subsidiary sold goods to its parent  
Indian company worth Rs.5.00 lacs for  
Rs.6.00 lacs .what is tax base.

Tax base= Rs.6.00 lacs.

### 5.11 Tax base of liability

Its carrying amount, less any amount deductible for tax purposes in respect of that liability in future periods.

### 5.12 Recognition: Of Temporary Difference:

Difference=Balance sheet value-Tax base

Temp. diff of two types:

#### a) Taxable Timing Diff :

Of Asset, if carrying Amount B/s > Tax Base

so, Taxable Timing Diff =carrying value-tax base

Of Liability, if Carrying Amount B/s < Tax Base

so, Taxable Timing Diff = Tax Base-carrying value

#### b) Deductible Temp. Diff :

Of Asset ,If carrying Amount B/s < Tax Base

Deductible temp. diff = tax base-carrying value

Of Liability, if Carrying Amount B/s > Tax Base

Deductible temp. diff = carrying value-tax base.

### Recognition of Deferred Tax Assets/Liabilities :

#### How To Determined DTA/DTL :

DTA=Deductible timing differences X Tax Rate.

DTL= Taxable timing differences X Tax Rate.

DTA-Balance Sheet as Non Current Asset

DTL-Balance Sheet as Non Current Liability

### Recognition of Deferred tax expenses & Deferred tax Incomes:

- Deferred tax expenses/incomes =  
Current year DTA/DTL-last year DTA/DTL
- Deferred tax expenses arises if -  
-DTL of period>DTL of immediately preceding year  
- DTA of period< DTA of immediately preceding year
- Deferred tax incomes arises if -  
-DTL of period<DTL of immediately preceding year  
-DTA of period>DTA of immediately preceding year

### Recognition Principles :

- Current tax liability:It is liability. provision is to be created in profit & loss account for unpaid tax.
- Current tax asset : It is advance tax paid .it is to be adjusted with tax expenses.
- DTL shall be recognized for all taxable temp. diff except :  
-initial recognition of goodwill  
-initial recognition of asset/liability other than business combination
- DTA shall be recognized for all deductible temp diff to the extent that probable taxable profit available.

### 5.13 Disclosure:

Following items should be disclosed separately:

1. The aggregate of current & deferred tax relating to items charged to equity.
2. The amount of income tax relating to each component
3. An explanation of relationship between tax expenses/income & accounting profit
4. An explanation of changes in the applicable tax rate.
5. The amount of deductible temp. diff, unused tax losses/credits
6. The aggregate amount of temporary differences associated with investment in subsidiary
7. Tax expenses relating to discontinuing operation
8. The amount of income tax consequences of dividend to shareholders of entity

### 6. ANALYSIS: Calculative aspect –

6.1 Details of X.Ltd are as follows: **Determine tax expenses for the year ended on 31/03/2016.**

Tax provision as on 31/03/2016 Rs.5,00,000

Additional demand arise for p.y.2014-15 Rs.10,000	
Balance of deferred tax liability :	
- as on 31/03/2016 Rs.2,00,000	
- as on 31/03/2017 Rs.1,95,000	
Current tax	Rs.5,00,000
+ Additional demand	Rs. 10,000
- Reversal of DTL	<u>Rs. 5,000</u>
Tax Expenses	<u>Rs.5,05,000</u>

6.2 Current liabilities include accrued fines & penalties with carrying amount of Rs.100.but fines not deductible for tax purpose. **what is tax base & taxable temporary difference ?**

carrying amt-Rs.100  
 future deductible amt-00  
 tax base =100-00=Rs.100.  
 taxable temporary diff- 00

### 6.3 Example on temp. timing diff.

Asset whose cost is Rs.150 .Carrying amt Rs.100.

Cumulative depreciation Rs.90.How this would be accounted for?

Tax base = 150-90=60

As carrying amt >tax base, taxable timing difference arises.

Timing diff = 100-60= Rs.40

X. ltd made provision for payment of gratuity Rs.100.but for tax purpose it is deductible on payment bases. How this would be accounted for ?

Carrying amt Rs.100

Tax base Rs.00.

As carrying amt >tax base, taxable timing difference arises.

Timing diff = Rs.100.

### 6.4 Example On Temporary Diff. & DTA/DTL

Following details are available of X.Ltd.

As on 31/03/2016 --

Balance sheet value-Rs.1,00,000

Tax Base- Rs.1,00,000

As on 31/03/2017—

Balance sheet value-Rs.90,000

Tax Base-Rs.75,000

### 6.5 Calculate Temp. diff & DTA/DTL if tax rate is 30 %

As on 31/03/2016- No taxable temp. diff-No DTA/DTL

As on 31/03/2017-taxable timing diff=15,000

so, **DTL**=15000 X30 % =Rs.4500.

6.6 From the following details of X.Ltd .Tax rate 30 %.

**Calculate Temp.diff, DTA/DTL & Deferred tax expenses/incomes.**

Particulars	31/03/2014	31/03/2015	31/03/2016
Carrying amount	100.00	90.00	80.00
Tax base	100.00	75.00	55.00
Taxable temp.diff	0.00	15.00	25.00
DTL	0.00	4.50	7.50
Deferred tax expense	0.00	4.50	3.00

## 7. FINDINGS:

### Comparison of AS 22 & IND AS 12

- **Approach for calculation of DTA/DTL:**

In AS 22, profit & loss account approach

In IND AS 12, balance sheet approach

- **Recognition :**

In AS 22, deferred taxes are recognized for timing differences of accounting & tax income.

In IND AS 12, deferred taxes are recognized for timing differences of accounting income & tax base.

- **Functional currency :**

In AS 22, no concept of functional currency.

In IND AS 12, effect as per functional currency is to be given.

- **Revaluation Of asset :**

In AS 22, consider as permanent difference. so, no question of deferred tax.

In IND AS 12, consider as temp. difference & effect given accordingly.

- **Classification :**

In AS 22, Deferred tax asset & deferred tax liability to be presented as part of non current asset & liability respectively.

In IND AS 12, deferred taxes are always classified as non-current.

## 8. CONCLUSION:

From the study it is concluded that IND AS 12 give wide coverage compare to AS 22. In global scenario IND AS will help out to disclose tax treatment of each transaction in financial statement .

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