

45-22 ⇒ Accounting For Taxes on Income

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* Definitions

1. Accounting Income - Net profit/loss for a period before tax adjustment
i.e. PBT [profit before tax]

2. Taxable Income - Income for period determined in accordance with law & based upon which income tax payable is determined.

3. Tax Expense - Aggregate of current tax & deferred tax charged to statement of P&L for period.

$$\therefore \text{Current tax} + \text{deferred tax} = \text{Tax expense}$$

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Amt. of income tax determined by tax law

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TAX EFFECT OF timing effect

• Accounting Income - Taxable Income = differences

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can be classified into

(i) permanent difference

[diff. that originate in one period & are ^{NOT} capable of reversal in one or more subsequent periods]

(ii) timing difference

[diff. that originate in one period & are capable of reversal in one or more subsequent periods]

* Statement of P&L :-

profit before Dep. & Tax	xxx
less: depreciation	(xxx)
profit before Tax	xxx
less: Tax Expense	
(i) current tax	(xxx)
(ii) deferred tax	[xxx]/xxy
profit (Net)	xxx

* Recognition :-

- Tax Expense should be included in the determination of Net Profit/Loss for the period.
- permanent diff. do not result in DTA/DTL.
- DTA/DTL are included in balance sheet.
- while recognizing difference, consid. of prudence can not be ignored
Therefore DTA are recognised & CIF only to the extent that there is reasonable certainty of their realisation.

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How?

- by examining the past record of Entity
 - Estimates of Profit of Future
- where Enterprise has unabsorbed depreciation or CIF of losses under laws, then

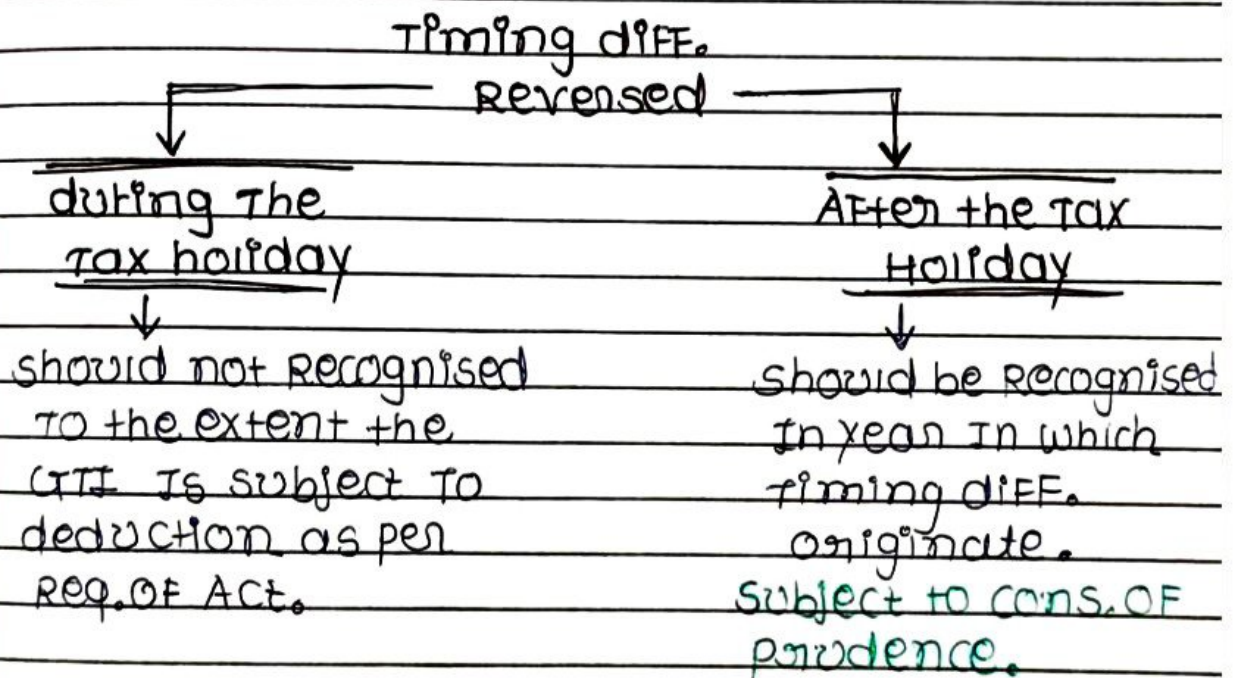
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→ Deferred tax Asset should be recognised only to the extent that there is

- virtual certainty supported by convincing evidence

that sufficient future taxable income will be available against which such DTA can be realised

* Accounting for Taxes on Income in Situation of Tax Holiday



Note: IF After Adjusting dep. & Expenses

• Accounting Income $>$ Current Tax = Deferred Tax Liability
 [Tax Expense] [Taxable Income]

• Accounting Income $<$ Current Tax = Deferred Tax Asset