



NAS 12 Income Taxes

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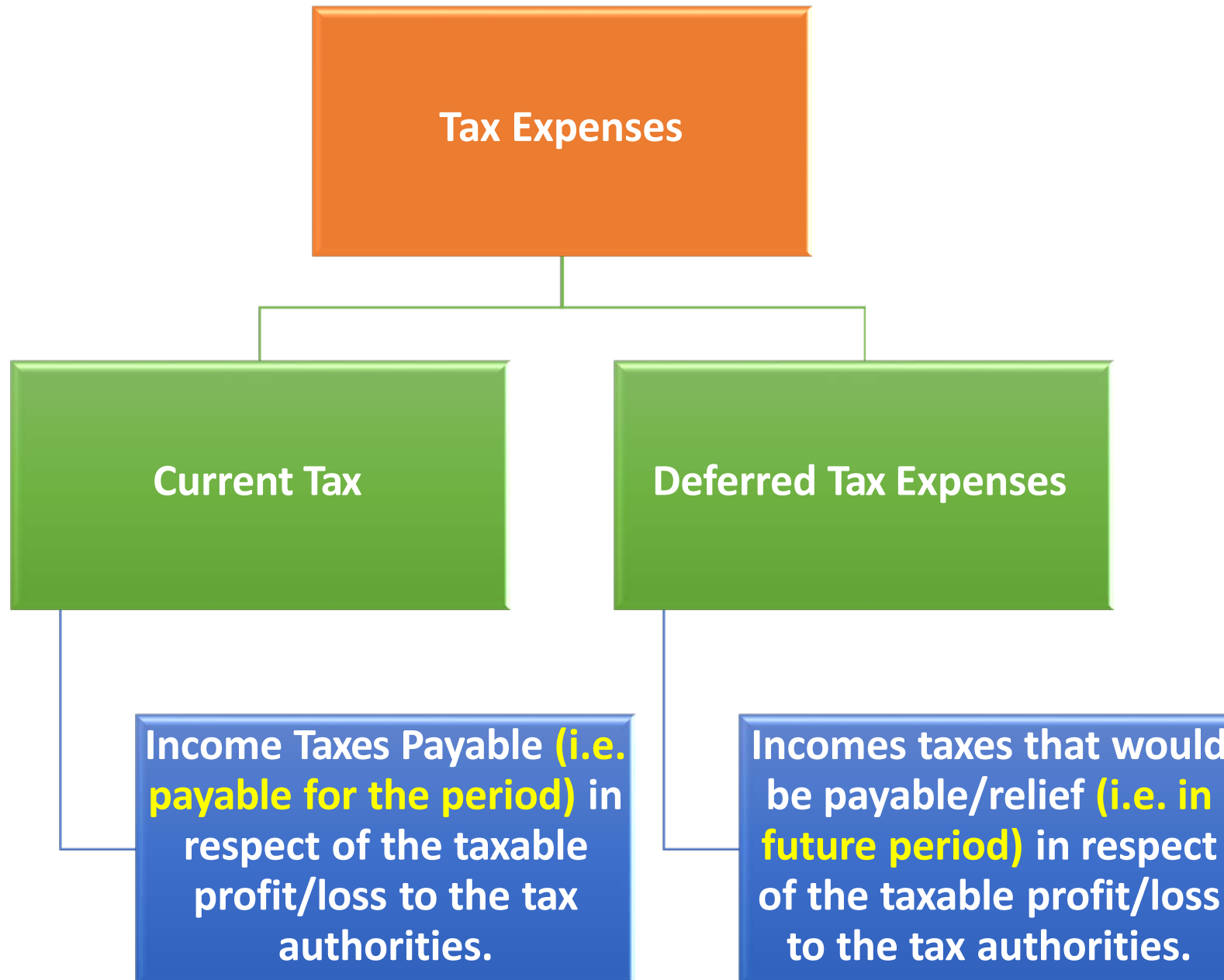
Objective

To prescribe the **accounting treatment** for income taxes. The principal issue in accounting for income taxes is how to account for the **current and future tax** consequences of:

- the **future recovery (settlement)** of the carrying amount of **assets (liabilities)** that are recognized in an entity's statement of financial position; and
- transactions and other events of the **current period** that are recognized in an entity's financial statements.

Definition

Accounting Profit	Profit or loss for a period before deducting tax expense.
Taxable Profit (Loss)	Profit (loss) for a period, determined in accordance with the rules established by the taxation authorities , upon which income taxes are payable (recoverable).
Tax expense (tax income)	Aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
Current Tax	Amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
Deferred tax liabilities	Amounts of income taxes payable in future periods in respect of taxable temporary differences.
Deferred tax assets	the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry forward of unused tax losses; and (c) the carry forward of unused tax credits (e.g. Sec 71 of ITA 2058).



Current Taxes

- Accounting profit is profit or loss for a period before deducting tax expense
- Taxable profit (or tax loss) is the profit/(loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable)
- Tax expenses (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax

Accounting Profit	XXXXX
Less income not taxable	(XXXX)
Add Income to be included	XXXXX
Add Deductions not allowed	XXXXX
Less Deduction allowed	XXXX
Taxable profit	XXXX

Calculation and Accounting for Current tax

- Tax is paid on **Taxable profit/income**.
- Accounting for current tax is **simple forward calculation**.
- When the financial statements are prepared, the tax charge on accounting profits for the year is likely **to be an estimate**, which is therefore not the amount of tax that will eventually be payable. The actual **tax charge** (based on taxable profit), agreed with the tax authorities **is likely to be different**.
- Accounting profit is the profit/loss for a period **before deducting tax expenses**.
- A series of **adjustment is made** against a company's accounting profit to arrive at its taxable profit. Adjustment involves:
 - **Adding back** inadmissible deductions
 - **Deducting** admissible deductions

Calculation and Accounting for Current tax

- Then, current tax is calculated by applying a **tax rate** provided by tax authorities on taxable profit/income.
- Current tax is an **expenses (a Debit)** in statement of profit/loss, with the other side a **tax payable (a Credit, under current liabilities)** in statement of Financial Position.



Deferred Tax

- ▶ **Deferred Tax Liabilities**

The amounts of income taxes **payable** in future periods in respects of taxable temporary differences.

- ▶ **Deferred Tax Assets**

The amounts of income taxes **recoverable** in future periods in respects of deductible temporary differences

Carrying amount and Tax base

- ▶ Carrying amount

The amount at which an assets, a liability or equity is recognized in the statements of financial position (as per NFRS) is referred as carrying amount

- ▶ Tax Base

The tax base of an asset or liability is the amount attribute to that asset or liability for tax purposes

- ▶ Carrying amount = tax base

No mismatched -----> no temporary difference -----> no deferred tax

Calculation and Accounting for Deferred Tax

Accounting for deferred tax is based on the principle that tax consequence of an item should be recognized in the same period as the item is recognized *i.e. matching concept*

Tax Base

Temporary Difference

Of Assets

Of Liability

Taxable Temporary Difference

Deductible Temporary Difference

Definition

Temporary differences

Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Taxable temporary differences

Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Deductible temporary differences

Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

Current Tax Asset

Amount already paid for current and prior period tax (e.g. advance tax, TDS receivable)

Current Tax Liabilities

Unpaid amount of Current tax for current and prior periods

Temporary Differences

Taxable Temporary Differences(TTD)

The difference which results in **taxable amounts** in determining taxable profit/loss of future periods.

They are caused by **Debit balance in carrying amount of assets/liability as compared to tax base**

i.e. CV of asset > Tax Base and
CV of liability < Tax Base

They lead to **deferred tax liabilities**

Deductible Temporary Differences(DTD)

The differences which results in **deductible amounts** in determining taxable profit/loss of future periods.

They are caused by a **Credit balance in carrying amount of asset/liability in financial statement compared to tax base**

i.e. CV of asset < Tax Base and
CV of liability > Tax Base

They lead to **deferred tax assets**

Recognition of Deferred Tax

Deferred Tax Liability

A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
 - is not a business combination; and
 - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Recognition of Deferred Tax

Deferred Tax Asset

A deferred tax asset shall be recognized for all deductible temporary differences to the extent that it is probable that taxable **profit will be available** against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- When entity has history of recent losses, it is **strong evidence that future taxable profit may not be available**. Consider strong evidence that profit will be available to set off those losses.

History of Recent losses

Steps in recognition, measurement and presentation of Deferred Tax

The following steps should be followed in the recognition, measurement, and presentation of deferred tax liabilities or assets:

Step 1: Compute carrying amounts of assets and liabilities

Step 2: Compute tax base

Step 3: Compute temporary differences

Step 4: Classify temporary differences into either:

- Taxable temporary difference
 - Deductible temporary difference
- Step 5: Identify exceptions

Step 6: Assess deductible temporary differences, tax losses, and tax credits

Step 7: Determine the tax rate

Step 8: Calculate and recognize deferred tax

Step 9: Accounting of deferred tax

Step 10: Offsetting of deferred tax liabilities and deferred tax assets

Deferred tax recognition and measurement rules

Deferred tax Liability

- * Amounts of income taxes payable in future periods
- * It must be recognized for ALL taxable temporary difference, except:
 - On initial recognition of goodwill.

Deferred tax Assets

- * Amounts of income taxes recoverable in future periods in respect of all deductible temporary differences
- * A deferred tax asset must be recognized for carry forward unused tax losses and credits.

Double entry for deferred tax

Deferred tax expenses/credit

Deferred tax Liability/Assets

Charged to Profit and Loss

Recorded as Balance Sheet item

Presentation of Current and Deferred Tax

Items presented in profit or loss

Recognized related current and deferred tax in profit or loss

Items presented in Other comprehensive income

Recognize related current and deferred tax in OCI

Examples of item:

- **Revaluation gain (NAS 16)**
- **Exchange difference on translation of financial statement of foreign operation (NAS 21) etc.**

Items presented directly into equity

Recognize related current and deferred tax directly in equity

Presentation of Current and Deferred Tax

Items presented directly into equity

Recognize related current and deferred tax directly in equity

Examples of item:

- Correction of error (NAS 8)
- Share issue expenses (NAS 32) etc.

Set-off of Current Tax Asset and Current Tax Liability

Present **Net Amount** of current tax asset and current tax liability in SoFP by netting the off if and

- has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

DEFERRED TAXATION

PARTICULARS	NFRS	INCOME TAX ACT	REMARKS
Salary Expenses	Booked as expenses	Expense Deductible	No difference
Donation, Liquor and other expenses	Booked as expenses	Expense disallowed	Expense disallowed permanently
Gratuity Expense (Provision only but not paid)	Booked as expenses	Expense disallowed in current year (but will be allowed in future when payment is made)	Expense disallowed temporarily.

DEFERRED TAXATION

No difference in NFRS and tax and hence, no question of deferred tax

PARTICULARS	NFRS	INCOME TAX ACT	REMARKS
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Permanent difference so no deferred tax

Deferred tax accounting for such types of "temporary differences" only

Recognition of Deferred Tax

- ▶ Transactions or events recognized in P&L ----- Current or deferred tax effect on P&L
- ▶ Transactions or events recognized in OCI ----- Current or deferred tax effect on OCI

Example: A land was purchased on 1st Shrawan 2080 for NRs 1 crore and was revalued on Aashadh 31, 2081 to NRs 1.3 crore. Tax rate is 30%

Land account ----- 30 lac
To OCI -----21 Lac
To Deferred Tax Liability ----9 Lac

ANY
QUESTIONS



THANK
you

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