

STATEMENTS OF ACCOUNTING STANDARDS (AS 22) ACCOUNTING FOR TAXES ON INCOME

COMPILED BY : NUPUR CHAKRABORTY (ACA)

INTRODUCTION

Accounting Standard (AS) 22, 'Accounting for Taxes on Income', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001. It is mandatory in nature for the following enterprises:

- Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.
- All the enterprises of a group, if the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group.

OBJECTIVE

- The objective of this Statement is to prescribe accounting treatment for taxes on income in accordance with the matching concept. This means matching of taxes with the corresponding revenue and expenses since taxable income significantly varies with the accounting income. This is because taxable income is computed as per Income Tax Laws.

DEFINITIONS

- Accounting income (loss) is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income tax expense or adding income tax saving.
- Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.
- Tax expense (tax saving) is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.
- Current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.
- The differences between taxable income and accounting income can be classified into permanent differences and timing differences.
- Permanent differences originate in one period and do not reverse subsequently.
- 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. Timing differences arise because the period in which some items of revenue and expenses are included in taxable income is different from the period in which such items of revenue and expenses are included in arriving at accounting income.
- Deferred tax Asset or Deferred taxes Liability arise due to timing differences.

RECOGNITION

- Total Tax Expense = Current tax + Deferred Tax
- Tax effects of timing difference are included in tax expenses and as deferred tax assets or as deferred tax liability. This has to be done for all the timing differences.
- Deferred tax assets are recognized subject to the consideration of prudence.
- Tax effects of permanent difference do not result in deferred tax assets or deferred tax liabilities

MEASUREMENT

- Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
- Deferred tax assets and liabilities should be measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
- Where slab rates are applicable for calculation of income - average rates should be used for deferred tax assets and liabilities

RE-ASSESSMENT AND REVIEW OF DEFERRED TAX ASSETS

- An enterprise should re-assess unrecognized deferred tax assets at every Balance Sheet date.
- The enterprise should recognize previously unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain.
- The carrying amount of deferred tax assets should be reviewed at each balance sheet date. An enterprise should write-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, that sufficient future taxable income will be available against which deferred tax asset can be realized.
- Any such write-down may be reversed to the extent that it becomes reasonably certain or virtually certain, that sufficient future taxable income will be available.

PRESENTATION AND DISCLOSURE

- An enterprise should offset assets and liabilities representing current tax or deferred tax if the enterprise has a legally enforceable right to set off the recognized amounts; and intends to settle the asset and the liability on a net basis.
- Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period.

ILLUSTRATIONS

Statement of Profit and Loss
(For the three years ending 31st March, 2001, 2002, and 2003)

	2001	2002	2003
Profit before depreciation and taxes	200	200	200
Less: Depreciation for accounting purposes	50	50	50
Profit before taxes	150	150	150
Less: Tax expense			
Current Tax (WN1)	20	80	80
Deferred Tax (WN2)	40	(20)	(20)
	60	60	60
Profit after Tax	90	90	90

WN1

	2001	2002	2003
Profit before depreciation and taxes	200	200	200
Less: Depreciation as per Taxation	150	-	-
Profit before Tax (As per Income Tax Act)	50	200	200
Tax (@40%)	20	80	80

WN2

	2001	2002	2003
Tax Effect of Timing Differences			
Depreciation as per Taxation	150	-	-
Less: Depreciation as per Accounts	50	50	50
Profit reduced by	100	(50)	(50)
Deferred Tax Liability (@40%)	40	-	-
Tax effect of reversal of Timing Difference	-	(20)	(20)