SUMMARY OF ALL ACCOUNTING STANDARDS [ONE DAY BEFORE EXAMS]

↔ Disclosure of Accounting Policies (AS 1)
↔ Property Plant and Equipment (AS 10)
↔ The Effects of Changes in Foreign Exchange Rate (AS 11)
↔ Accounting for Government Grants (AS 12)
↔ Borrowing Costs (AS 16)
↔ Accounting for Taxes on Income (AS 22

☆ AS-1 — Disclosure of Accounting Policies (Summary Notes)

1. Meaning

AS-1 requires an enterprise to **disclose all significant accounting policies** used in preparing financial statements so that users understand how the numbers were derived.

2. Objective

- To ensure **transparency** and **comparability** of financial statements.
- To help users understand **measurement bases** and **methods** applied.

3. Fundamental Accounting Assumptions

(Considered followed unless stated otherwise)

1. **Going Concern** – business will continue in the near future.
2. **Consistency** – same policies used from year to year.
3. **Accrual** – record incomes/expenses when they occur, not when cash is received/paid.

If any assumption is **not** followed → Must be **specifically disclosed**.

4. What are Accounting Policies?

Specific **principles, rules and practices** used to prepare financial statements.

Examples:

- Method of depreciation (SLM/WDV)
- Inventory valuation (FIFO/Weighted Average)
- Revenue recognition method
- Valuation of investments, PPE, foreign exchange, provisions, taxes, etc.

5. When to Disclose?

Disclose policies that are:

- **Material**,
- **Significant**, and
- **Affect profit or financial position**.

Usually shown as a **separate note** titled *"Significant Accounting Policies"*.

6. Change in Accounting Policy

When a company changes a policy, it must disclose:

1. **Nature of change**
2. **Reason for change**
3. **Effect on financial statements**

→ Normally applied **retrospectively**, unless impracticable.

Example: Change from SLM to WDV depreciation.

7. Change in Estimate vs Change in Policy

- **Estimate** (e.g., useful life of asset): Applied **prospectively**.
- **Policy** (e.g., SLM → WDV): Applied **retrospectively**, disclose reason/effect.

8. Errors

Material prior-period errors must be **corrected** and **disclosed** separately.

9. Typical Policies to Disclose

- Revenue recognition
- Depreciation method
- Inventory valuation
- PPE valuation
- Foreign exchange treatment
- Government grants treatment
- Borrowing cost policy
- Provision, impairment, tax, and investment valuation methods

10. Short Examples

- Company uses **FIFO** for inventory → must disclose.
- Company shifts depreciation method **SLM** → **WDV** → disclose nature, reason, effect.

- If going concern assumption is violated → must disclose clearly.

Topic	Meaning / Rule	Treatment / Requirement	Simple Example
1. Objective of AS-1	To ensure transparency & comparability by disclosing significant accounting policies	Must disclose **all important policies** affecting financial statements	Depreciation, inventory valuation, revenue recognition
2. Accounting Policies	Principles, rules & methods used in preparing financial statements	Select appropriate policy; apply **consistently**	FIFO vs Weighted Average for inventory
3. Fundamental Accounting Assumptions	Basic assumptions presumed to be followed unless stated otherwise	If **not followed**, disclosure required	Going Concern, Consistency, Accrual
4. Areas Requiring Disclosure	Policies that significantly affect profit & financial position	Must disclose methods used: depreciation, inventory, FX, taxes, grants, investments	SLM/WDV, FIFO/Weighted Avg., etc.
5. Change in Accounting Policy	Changing the method or principle followed earlier	Disclose **nature**, **reason**, and **effect** of change; normally **retrospective**	Change from SLM to WDV → show impact on profit
6. Change in Accounting Estimate	Revision of an estimate due to new information	Applied **prospectively** (future only), disclose nature & effect	Useful life of asset increases
7. Error Correction	Mistakes of previous period	Adjust **prior period** figures and disclose nature of error	Wrong depreciation earlier corrected this year
8. Materiality	Only material/significant policies need detailed disclosure	Immaterial policies may be	Small stationery expense valuation

		stated briefly	
9. Consistency	Same methods should be used every year	If changed → must disclose reason & effect	Change in inventory valuation method
10. Presentation	Policies shown as separate note "Significant Accounting Policies"	Usually first note to financial statements	Standard note in annual report
11. Disclosure When Assumption Is Violated	If Going Concern/Consistency/Accrual not followed	Must clearly state deviation & reason	Business closing → Going concern not valid
12. Non-Disclosure	Policies too detailed/not relevant should not clutter FS	Disclose only material ones	Internal procedures not disclosed

AS-10 PPE

1. Meaning

PPE are **tangible fixed assets** held for:

- Production
- Supply of goods/services
- Rental
- Administrative purposes

...and used for **more than one accounting period**.

Examples: land, building, machinery, vehicles, furniture, computers.

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2. Recognition Criteria

An item is recorded as PPE only when:

1. **Future economic benefits** are expected, and
2. **Cost can be measured reliably**.

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3. Initial Measurement — Cost of PPE

Cost includes:

- Purchase price (net of discounts)
- Import duties & taxes
- Delivery/transport cost
- Installation & testing
- Site preparation
- Professional fees
- **Borrowing cost** (as per AS-16) for qualifying assets

Not included: start-up losses, general overhead, abnormal wastage.

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4. Subsequent Expenditure

- **Capital Expenditure:** enhances efficiency, capacity, life → **add to asset cost**.
- **Revenue Expenditure:** repairs, maintenance → **charged to P&L**.

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5. Depreciation

- Systematic allocation of cost over useful life.
- Begins when asset is **ready for use**, not necessarily when used.
- Methods: **SLM**, **WDV**.
- Residual value and useful life should be reviewed periodically.

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6. Revaluation of PPE

If revalued:

- **Increase** → credited to **Revaluation Reserve**.
- **Decrease** → charged to **P&L** (unless earlier revaluation reserve exists for same asset).

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7. Impairment

If recoverable amount < carrying amount → asset is **written down** (impairment loss).

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8. Derecognition (Removal of PPE)

An asset is removed when:

- Sold
- Scrapped
- No future benefit expected

Gain/Loss = **Sale value – Carrying amount** (goes to P&L).

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9. Component Accounting

Significant parts of an asset with different useful lives are **depreciated separately**.

Example: Aircraft engine and body.

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10. Disclosure Requirements

Financial statements must disclose:

- Measurement basis (cost/revaluation)
- Depreciation method & rates
- Useful life
- Gross & net carrying amount

- Reconciliation of opening & closing balances
- Effects of revaluation (if any)

✓ **Simple Examples for Quick Understanding**

Example 1: Asset Cost Calculation

Machine price = ₹5,00,000
Transport = ₹20,000
Installation = ₹30,000
Trial run = ₹10,000

Cost of PPE = ₹5,60,000

Example 2: Capital vs Revenue

- New engine fitted improving efficiency → **Capital expenditure**
- Regular servicing → **Revenue expenditure** (expense in P&L)

Example 3: Revaluation

Original cost: ₹10,00,000
Revalued amount: ₹12,00,000
Increase = ₹2,00,000 → **Revaluation Reserve**

Bearer Plants (Very Important)

☑ **Definition**

A **Bearer Plant** is a *living plant* that:

1. Is used **in the production or supply of agricultural products**;
2. Is expected to **bear produce for more than one period**;
3. Has a **remote likelihood of being sold** as agricultural produce (except for scrap).

✓ **Examples of Bearer Plants**

- Tea bushes
- Coffee plants
- Mango trees (in orchards)
- Rubber trees
- Coconut trees
- Apple trees
- Grape vines (for grapes used repeatedly)

4. Cost of Bearer Plant (Initial Recognition)

Cost includes:

- Purchase cost of saplings/seeds
- Land preparation
- Planting & cultivation expenses till the plant is ready to bear produce
- Irrigation system (if exclusively for bearer plant)
- Labour charges
- Borrowing cost (if qualifying asset)

Topic	Meaning / Rule	Treatment / Key Points	Simple Example
1. PPE – Definition	Tangible assets used for production, supply, rental or admin; used >1 year	Recognize only when future economic benefits are expected and cost measurable	Machinery, building, vehicles
2. Initial Measurement (Cost)	PPE recorded at cost	Includes purchase price, taxes, installation, transport, testing, site prep, borrowing cost	Machine ₹5,00,000 + installation ₹20,000 = ₹5,20,000
3. Subsequent Expenditure	Expenses after asset purchase	Capitalise if increases life/efficiency; Expense if repair/maintenance	New engine → capital; oiling → expense
4. Depreciation	Allocation of cost over useful life	Begins when asset is ready for use; methods: SLM/WDV	Depreciation on machinery annually
5. Revaluation of Assets	Changing asset to fair value	Increase → Revaluation Reserve; Decrease → P&L (unless reserve available)	Asset revalued from ₹10L → ₹12L → Reserve ₹2L
6. Impairment	Permanent fall in value	Write down asset to recoverable amount	Damage reduces machine value
7. Derecognition (Removal)	When asset is sold, scrapped or no longer gives benefit	Remove from books; Gain/Loss → P&L	Sold asset for ₹50,000; book value ₹40,000 → gain ₹10,000
8. Bearer Plants (Important)	Living plants used repeatedly to produce crops; not	Treated as PPE: capitalised, depreciated, impaired like fixed assets	Tea bushes, rubber plants, mango trees

	meant to be sold		
9. Non-Bearer Plants	Plants grown for sale/harvest themselves	Treated as inventory or biological produce; NOT PPE	Wheat crop, timber trees
10. Cost of Bearer Plant	All costs till plant is ready to bear produce	Includes saplings, cultivation, planting, irrigation, fertilisation, labour, borrowing cost	Tea estate development cost capitalised
11. Depreciation of Bearer Plant	Start when plant is ready for commercial yield	Depreciate over productive life	Mango trees yielding from year 4 → depreciation starts year 4
12. Component Accounting	Significant parts depreciated separately	Apply separate useful life and depreciation for each component	Aircraft engine + body depreciated separately
13. Disclosure Requirements	Measurement basis, depreciation method, useful lives, gross/net value, revaluation details	Shown in Notes to Accounts	PPE note in financial statements

☆ AS-11 — (Foreign Exchange Rates)

1. Meaning & Objective

AS-11 deals with:

- How to **record foreign currency transactions**, and
- How to treat **exchange gains and losses** arising due to changes in exchange rates.

Objective → Ensure **proper and consistent translation** of foreign currency items.

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2. Key Terms

Foreign Currency

Any currency other than the enterprise's reporting currency (INR).

Monetary Items

Items to be **received or paid in fixed or determinable money units**.
Examples:

- Debtors (Foreign receivable)

- Creditors (Foreign payable)
- Loans (Foreign currency borrowings)
- Cash, bank balances in foreign currency

Non-Monetary Items

Items whose value is **not fixed** in terms of money.
Examples:

- Inventory
- PPE (if recorded at historical cost)
- Investments in equity shares
- Prepaid expenses

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3. Initial Recognition

Foreign currency transactions are recorded **at the exchange rate on the date of transaction**.

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4. Treatment at Year-End

A. Monetary Items → Restate at Closing Rate

- All foreign monetary assets & liabilities must be converted at **closing rate**.
- **Exchange difference (gain/loss) → Profit & Loss Account**.

Examples:
Foreign debtor, creditor, loan → re-translated at closing rate.

B. Non-Monetary Items → No Restatement (If at Historical Cost)

Items like fixed assets, inventory, investments measured at cost remain at the **original transaction rate**.

Example:
A machine imported at $5,000 when rate was ₹70 → recorded at ₹3,50,000
Even if rate changes later → **no change**.

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5. Treatment on Settlement

If payment/receipt is made later at a different rate:

- Exchange difference at settlement → **P&L**.

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6. Forward Exchange Contracts

Two types:

A. For Trading/Speculation

- Premium/discount is recognized in **P&L**.
- Exchange difference also goes to **P&L**.

B. For Hedging (Firm Commitment)

- Premium/discount amortized over contract period.
- Exchange difference recognized based on purpose of contract.

(CMA Foundation usually asks basics only.)

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7. Integral vs Non-Integral Foreign Operation

Integral Foreign Operation (IFO)

- Functions like an extension of the parent (e.g., foreign branch).
- Exchange differences → **P&L**.

Non-Integral Foreign Operation (NIFO)

- Has significant autonomy (foreign subsidiary).
- Exchange difference → **Foreign Currency Translation Reserve (FCTR)**.

(Note: Detailed rules are for higher levels; basics relevant for MCQ/Foundation exams.)

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8. Examples — Simple & Clear

✓ Example 1: Foreign Purchase (Monetary Item)

Goods purchased: $1,000
Rate on purchase date = ₹80 → ₹80,000
Closing rate = ₹82 → ₹82,000

Exchange Loss = ₹2,000 → P&L

✓ Example 2: Non-Monetary Item (No Restatement)

Imported machinery: $2,000
Rate on purchase = ₹75 → ₹1,50,000
Closing rate = ₹80

No change → Asset stays at ₹1,50,000

✓ Example 3: Settlement

Amount payable: $5,000
Rate on purchase = ₹78
Rate on settlement = ₹80

Exchange Loss = $5,000 × (80 – 78) = **₹10,000 → P&L**

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9. Disclosure Requirements

- Amount of exchange differences recognized in **P&L**.
- Impact of exchange differences adjusted in carrying amounts of assets/liabilities.
- Foreign currency risk management details (if material).

Topic	Meaning / Rule	Treatment	Simple Example
1. Foreign Currency Transaction	Transaction done in currency other than reporting currency (INR)	Record at **exchange rate on transaction date**	Purchase $1,000 at ₹80 → ₹80,000
2. Monetary Items	Items to be received or paid in **fixed money units**	**Restate at closing rate** on balance sheet date	Foreign creditor, debtor, loan
3. Non-Monetary Items	Items whose value is **not fixed in money terms**	**Do NOT restate** if recorded at historical cost	PPE, inventory, investments at cost
4. Exchange Difference on Monetary Items	Difference due to rate fluctuation	Charge to **P&L** (gain or loss)	Rate increases from ₹80 → ₹82 → ₹2,000 loss
5. Initial Measurement	At the date of transaction	Convert using that day's rate	Sale of $500 at ₹78
6. Year-End Translation of Monetary Items	Monetary assets/liabilities must reflect closing rate	Gain/loss → P&L	Debtor $2,000 @ ₹82 vs ₹80 earlier
7. Settlement of Monetary Items	When payment/receipt happens at different rate	Difference → **P&L**	Paid $1,000 at ₹81 instead of ₹80 → ₹1,000 loss
8. Non-Monetary Items at Fair Value	If valued at fair value	Use **rate on date of fair valuation**	Revalued land in foreign currency
9. Integral Foreign Operation (IFO)	Operates as extension of Indian business (branch)	Exchange difference → **P&L**	Foreign branch
10. Non-Integral Foreign Operation	Independent subsidiary abroad	Exchange difference → **FCTR (reserve)**	Foreign subsidiary

(NIFO)			
11. Forward Exchange Contracts — Trading/Speculation	Taken for trading purposes	Premium/discount + exchange diff → **P&L**	Forward contract for speculation
12. Forward Contracts — Hedging	Hedging firm commitments or highly probable transactions	Premium/discount amortized; exchange difference based on purpose	Hedging import purchase
13. Disclosure Requirements	Amount of exchange difference recognized in P&L & policies followed	Notes to Accounts	Basic AS-11 disclosures

☆ AS-12 — Accounting for Government Grants

1. Meaning

Government grants are **assistance** provided by the Government in the form of:

- Subsidies
- Cash incentives
- Duty drawbacks
- Concessions

…to support a business.

NOT included:

- Government ownership contributions (equity participation)
- Benefits not measurable in money (free technical advice, etc.)

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2. Objectives of AS-12

- To prescribe **how to account** for government grants.
- To ensure **proper matching** of grants with related costs.
- To avoid misleading presentation of income/assets.

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3. Types of Grants

AS-12 divides grants into **two main categories**:

A. Grants Related to Revenue

Given to meet **day-to-day expenses**, operating costs, or specific revenue items.

Accounting Treatment

Two acceptable methods:

1. **Show as Income**
   → Credited to P&L as "Government Grant"
2. **Deduct from Related Expense**
   → Expense shown net of grant

✓ Example

Export incentive ₹50,000 → credit to P&L under "Other Income".

B. Grants Related to Assets

Given for acquiring fixed assets (land, machinery, building).

Two Methods of Accounting:

1. Deduct from Asset Cost

Asset cost – Grant = Net cost
→ Depreciate reduced cost.

2. Show as Deferred Income

- Show the grant as **Deferred Income** (liability)
- Transfer proportionately to P&L over asset's useful life.

✓ Example

Machine cost = ₹10,00,000
Grant = ₹2,00,000

Method 1:
Asset shown at ₹8,00,000 (Depreciation charged on ₹8,00,000)

Method 2:
Asset at ₹10,00,000
Grant shown as "Deferred Income"
Deferred income credited to P&L each year.

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4. Grants Related to Promotion of Sales / Export Incentives

These are **revenue grants** → shown as **income**.

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5. Refund of Government Grant

If grant becomes **refundable**, treat repayment as:

A. Refund of Revenue Grant

- Treated as **extra expense** in P&L.

B. Refund of Asset Grant

Either:

- Increase the asset cost by the refundable amount, or
- Reduce the **Deferred Income Balance**

Any extra amount after adjusting deferred income → charged to **P&L**.

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6. Grants in the Nature of Promoters' Contribution

Grants received for:

- Setting up a business, or
- Contributing to capital investment
  → Treated as **Capital Reserve**
  (Not distributable as dividend)

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7. Recognition of Grants

A government grant should be recognized only when:

1. There is **reasonable assurance** that enterprise will comply with conditions; and
2. Grant will be **received**.

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8. Disclosure Requirements

- Nature and extent of grants received
- Accounting policy adopted for grants
- Impact of grants on financial statements
- Unfulfilled conditions (if any)

Type of Government Grant	Meaning	Accounting Treatment	Where Shown in FS?	Example
1. Revenue Grant	Grant given to meet day-to-day expenses or to support operations	**Two options**:1. Show as **income** in P&L2. Deduct from **related expense**	Profit & Loss Account	Export incentive ₹50,000 → shown as income
2. Grant Related to Specific Fixed Asset (Asset Grant)	Grant for purchasing or constructing fixed assets like machine, building	**Two methods**:1. **Deduct from asset cost**2. Treat as **Deferred Income** and credit to P&L over useful life	Balance Sheet (Asset reduced) ORDeferred Income under Liabilities	Machine ₹10,00,000; grant ₹2,00,000 → Machine shown at ₹8,00,000
3. Grant Related to Income/Expenses	Grant to support specific expenses like wages, research, training	Deduct from related **expense** or treat as **income**	P&L	Govt pays ₹1,00,000 for staff training → reduce staff training expense
4. Grant in the Nature of Promoter's Contribution	Grant given for setting up a business or towards capital structure; not linked to specific asset or expense	Treated as **Capital Reserve** (NOT available for dividend)	Balance Sheet under **Reserves & Surplus**	Govt grants ₹5,00,000 for setting up factory
5. Non-Monetary Government Grant	Grant received in non-cash form (e.g., free land, building)	If free → record at **nominal value**If concession → record at **acquired cost**	Asset side of Balance Sheet	Govt gives land free → record at ₹1 (nominal)
6. Refund of Government Grant	Grant becomes repayable because	**Revenue Grant Refund**: treat as **expense** in	P&L / Asset / Deferred Income	Refund of ₹50,000 grant related to

	conditions not met	P&L**Asset Grant Refund:-** Increase asset cost OR- Reduce deferred incomeAny excess → P&L		asset → add ₹50,000 to asset cost
7. Grants for Promotion of Exports	Duty drawbacks, export incentives	Treated as **Revenue Gr**		

☆ AS-16 — Borrowing Costs (Summary Notes)

1. Meaning

Borrowing costs include:

- Interest on borrowings

- Commitment charges
- Amortization of discounts/premiums
- Amortization of ancillary costs (loan processing fees)
- Finance charges on finance leases
- Exchange differences related to borrowing (as per AS-11, if exchange loss is treated as interest cost)

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2. Core Principle

✓ Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset (QA) → CAPITALISE

✓ All other borrowing costs → CHARGE TO P&L (expense)

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3. What is a Qualifying Asset (QA)?

A **qualifying asset** is an asset that **takes substantial time** to get ready for its intended use.

✓ Examples of QAs:

- Building under construction
- Large machinery requiring long installation
- Hydel project, power plant
- Plantation / bearer plants (till they are ready)
- Inventories requiring long production period (wine, cheese)

✗ Not QAs:

- Ready-made machinery purchased
- Inventories produced rapidly
- Assets already ready for use

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4. Capitalisation of Borrowing Costs

A. When to START Capitalisation?

Start when **ALL** conditions are met:

1. Expenditure for the asset is being incurred
2. Borrowing cost is being incurred
3. Activities necessary to prepare the asset are in progress

B. When to STOP Capitalisation?

Stop when:

- The asset is **ready for its intended use** (even if not put to use)

If construction is completed in parts and each part can be used independently → stop capitalising for that part.

C. When to SUSPEND Capitalisation?

Suspend during periods when **active development is interrupted** abnormally.

Example:

- Construction halted due to strike or natural disaster → suspend capitalisation.

Normal delays (rainy season, routine technical issues) do **not** require suspension.

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5. Specific Borrowings vs General Borrowings

A. Specific Borrowings

Loan taken ONLY for a specific qualifying asset.

✓ Capitalisation Amount = Actual borrowing cost incurred – Income earned on temporary investment

(If temporarily invested before use)

B. General Borrowings

Loans not taken specifically for the asset.

✓ Capitalisation Amount = Weighted Average Capitalisation Rate × Expenditure on QA

(Calculate average rate of all general borrowings)

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6. Example (Simple & Exam-Friendly)

✓ Example 1: Specific Borrowing

Loan for construction: ₹20,00,000
Interest: ₹2,00,000
Unused loan temporarily invested → earned ₹20,000

Capitalised amount = ₹2,00,000 – ₹20,000
= ₹1,80,000

✓ Example 2: Capitalisation Start & Stop

Building construction:

- Started April
- Activities began May
- Asset ready in December

Capitalisation period = May to December
(Ready for use → capitalisation stops)

✓ Example 3: Suspension

Construction stopped due to workers' strike for 2 months → Suspend capitalisation for 2 months.

7. Disclosure Requirements

Financial statements must disclose:

- Accounting policy for borrowing costs
- Amount capitalised during the period
- Capitalisation rate used for general borrowing

Topic	Meaning / Rule	Treatment	Example (Easy to Understand)
1. Borrowing Costs (Definition)	Interest & other costs incurred in connection with borrowing of funds	Expense or Capitalised (based on QA)	Interest, loan processing fees, finance lease charges
2. Qualifying Asset (QA)	Asset requiring substantial time to get	Borrowing cost capitalised	Building, hydel plant, machinery

	ready for use/sale		requiring installation, ageing inventory (wine, cheese)
3. Non-Qualifying Asset	Asset ready for use immediately	Borrowing cost expensed	Ready-made machinery
4. Start of Capitalisation	Capitalisation begins when: 1. Expenditure incurred 2. Borrowing cost incurred 3. Activities to prepare asset are in progress	Start capitalising interest	Construction begins → interest capitalises
5. Suspension of Capitalisation	Stop temporarily during abnormal delays	No capitalisation during suspension period	Strike for 2 months → suspend capitalisation
6. Cessation of Capitalisation	Stop when asset is ready for intended use (even if not used yet)	Capitalisation ends	Building completed → stop capitalising interest
7. Specific Borrowing	Loan taken specifically for qualifying asset	Capitalise actual interest – income from temporary investment	Loan ₹20,00,000; interest ₹2,00,000; bank interest ₹20,000 → Capitalise ₹1,80,000
8. General Borrowing	Loans taken generally, not for one specific asset	Capitalise using Weighted Average Capitalisation Rate × QA expenditure	Avg. borrowing rate 12%, expenditure ₹10,00,000 → Capitalise ₹1,20,000
9. Exchange Differences (AS-11 Link)	Exchange loss on foreign loan treated as adjustment of interest (if related to borrowings)	Part of borrowing cost	FX loss ₹30,000 on foreign loan → treated as borrowing cost
10. Non-Capitalisable Borrowing Costs	Costs not related to qualifying asset	Charge to P&L	Interest on working capital loan
11. Disclosure Requirements	- Accounting policy - Amount of borrowing costs capitalised - Capitalisation rate used	Shown in Notes to Accounts	E.g., "Borrowing cost capitalised: ₹3,40,000 at 10% rate."

☆ AS-22 — Accounting for Taxes on Income (Summary Notes)

AS-22 deals with **Deferred Tax Assets (DTA)** and **Deferred Tax Liabilities (DTL)** arising due to **timing differences** between accounting profit and taxable profit.

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1. Key Objective

To match **income tax expense** with **accounting income** of the same period by recognizing:

- **Current Tax** (as per Income Tax Act)
- **Deferred Tax** (due to timing differences)

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2. Important Concepts

A. Accounting Income

Profit as per financial statements.

B. Taxable Income

Profit as per Income Tax Act.

C. Timing Differences (Core Topic)

Differences that arise in one period but **reverse in future periods**.

Examples:

- Depreciation (book and tax difference)
- Expenses allowed in tax later (e.g., bad debt provision, warranty)
- Income taxed earlier/later

→ **Timing differences create DTA or DTL.**

D. Permanent Differences

Do NOT reverse in future → NO DTA/DTL.

Examples:

- Penalties & fines
- Donations not allowed
- Personal expenses
- Agricultural income (exempt)

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3. Deferred Tax Liability (DTL)

DTL arises when:

Taxable income < Accounting income
→ Means tax benefit taken **now**; extra tax will have to be paid **later**.

✓ Common Example:

Book depreciation = ₹10,000
Tax depreciation = ₹15,000
Taxable income ↓ → pay less tax now → **DTL created**.

✓ Formula:

DTL = Timing Difference × Tax Rate

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4. Deferred Tax Asset (DTA)

DTA arises when:

Taxable income > Accounting income
→ Means you pay **more tax now**, and you will pay **less in the future**.

✓ Common Examples:

- Provision for doubtful debt disallowed now but allowed later
- Preliminary expenses allowed over 5 years
- Unabsorbed depreciation
- Carried forward business losses

✓ Important Rule (Exam Point)

DTA is recognized **only when there is reasonable certainty** of future taxable profits.
For **unabsorbed losses** → need **virtual certainty**.

5. Recognition Rules

✓ DTL

Always recognized for all **taxable temporary (timing) differences**.

✓ DTA

Recognized only when:

- **Reasonable certainty** of future profit exists.
- For loss carry-forward → **virtual certainty** with convincing evidence.

6. Measurement

DTA/DTL are measured using the **enacted tax rate** relevant to the period in which the difference reverses.

7. Presentation in Financial Statements

- Shown separately from current tax.
- DTA/DTL usually disclosed under **non-current assets/liabilities**.
- Movements in DTA/DTL recognized in **Profit & Loss**.

8. Simple Illustrations (Exam-Friendly)

✓ Example 1: Creating DTL

Book depreciation = ₹1,00,000
Tax depreciation = ₹1,50,000
Timing difference = ₹50,000
Tax rate = 30%

DTL = 50,000 × 30% = **₹15,000**

✓ Example 2: Creating DTA (Provision for Bad Debts)

Provision made in books = ₹20,000
Tax law allows claim next year.
Timing difference = ₹20,000

DTA = 20,000 × 30% = **₹6,000**

✓ Example 3: Unabsorbed Loss

Business loss carried forward = ₹2,00,000
Tax rate = 30%

DTA = 2,00,000 × 30% = ₹60,000
But created **only if virtual certainty** of future profits.

9. Disclosure Requirements

- Major components of tax expense
- Current tax & deferred tax separately
- Nature of timing differences considered
- Movement in DTA/DTL balances

Topic	Meaning / Rule	Treatment	Simple Example
1. Accounting Income	Profit as per books	Used to compute deferred tax	Profit in P&L
2. Taxable Income	Profit as per Income Tax Act	Used to compute current tax	Tax return profit
3. Current Tax	Tax payable for current year	Charge to **P&L**	Tax @ 30% on taxable income
4. Timing Differences (Core of AS-22)	Differences between accounting & taxable income that **reverse later**	Create **DTA or DTL**	Depreciation difference, provisions, etc.
5. Permanent Differences	Do NOT reverse	**No DTA/DTL**	Penalties, donations, exempt income
6. Deferred Tax Liability (DTL)	Arises when **Taxable Income < Accounting Income**	Recognise **DTL**	Book Dep = 10,000; Tax Dep = 15,000 → DTL
7. Deferred Tax Asset (DTA)	Arises when **Taxable Income > Accounting Income**	Recognise **DTA** only if **reasonable certainty** of future profits	Provision for bad debts disallowed now but allowed later
8. DTA for Losses	Unabsorbed depreciation / business losses	Recognise **only if virtual certainty** with convincing evidence	Carried forward loss ₹2,00,000
9. Measurement	Use **enacted tax rate** for the period of reversal	Apply tax rate on timing difference	30% rate × difference
10. Recognition Principle	DTL always recognised; DTA recognised with	Charge/credit to **P&L**	Create DTL or DTA

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	"reasonable certainty"		
11. Reversal of DTA/DTL	When timing difference reverses	Adjust in **P&L**	Next year tax dep < book dep → reverse
12. Disclosure Requirements	- DTA/DTL recognised - Major timing differences - Movement in DTA/DTL	Notes to Accounts	Shown under Non-Current Assets/Liabilities